

# Disclosure Brochure

March 30, 2018

## **Alethea Capital Management, LLC**

*a Registered Investment Adviser*

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This Disclosure Brochure provides information about the qualifications and business practices of Alethea Capital Management, LLC (hereinafter "Alethea"). If you have any questions about the contents of this brochure, please contact Tony Hsu at (858) 926-2058. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Alethea Capital Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Alethea Capital Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since Alethea's last annual update dated February 27, 2017. Alethea has no changes to disclose in relation to this Item.

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## Item 4. Advisory Business

Alethea is an investment adviser providing financial planning, consulting, and investment management services. Prior to engaging Alethea to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Alethea setting forth the terms and conditions under which Alethea renders its services (collectively the "Agreement"). Neither Alethea nor the client may assign the Agreement without the consent of the other party. A transaction that does not result in a change of actual control or management of Alethea is not considered an assignment.

Alethea began its business operations in March 2011. Tony Hsu is the principal owner of Alethea. As of December 31, 2017, Alethea had \$157,825,584 of assets under management, all of which was managed on a discretionary basis.

This disclosure brochure describes the business of Alethea. Certain sections will also describe the activities of Supervised Persons. Supervised Persons are any of Alethea's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Alethea's behalf and is subject to Alethea's supervision or control.

### **Investment Management Services**

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Clients can engage Alethea to manage all or a portion of their assets on a discretionary basis. Alethea's investment management services typically include a broad range of comprehensive financial planning services. Alethea primarily allocates clients' investment management assets among mutual fund, exchange-traded funds ("ETFs"), individual debt and equity securities and/or options in accordance with the investment objectives of the client. In addition, Alethea may recommend that clients, who are properly qualified, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. Alethea also provides advice about any type of investment held in clients' portfolios.

Alethea also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, Alethea either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Alethea tailors its advisory services to the individual needs of clients. Alethea consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. Alethea ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance. Alethea does typically invest client assets through the use of model portfolios. Therefore, many of the holdings in clients' accounts will be similar.

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Clients are advised to promptly notify Alethea if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Alethea's management services.

## **Management of Collective Investment Vehicle**

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Alethea is the investment manager and general partner to four affiliated private investment funds: ALETHEA Biotech Fund II, LP, ALETHEA Biotech Fund, LP, ALETHEA Global Equity Fund, LP, and ALETHEA MEDTECH FUND, LP (the "Private Funds"). Interests in the Private Funds are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. The Private Funds currently rely on an exemption from registration under the Investment Company Act of 1940, as amended.

To the extent certain of Alethea's individual advisory clients qualify, they will be eligible to participate as limited partners of the Private Funds. Investment in the Private Funds involves a significant degree of risk. All relevant information, terms and conditions relative to the Private Funds, including the compensation received by Alethea, suitability, risk factors, and potential conflicts of interest, are set forth in a confidential private offering memorandum, limited partnership agreement, and/or subscription agreement, which each investor is required to receive and/or execute prior to being accepted as an investor in the Private Funds. While the Private Funds are generally considered to be clients of Alethea, "client(s)" may also refer to the investors in the Private Funds.

Alethea will devote its best efforts with respect to its management of both the Private Funds and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in the Private Funds, Alethea may give advice or take action with respect to the Private Funds that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the Private Funds and certain individual client accounts, such investments will be allocated between the Private Funds and the individual client accounts in a manner which Alethea determines is fair and equitable under the circumstances to all of its clients.

## **Item 5. Fees and Compensation**

Alethea offers its services on a fee basis, which may include fixed fees, as well as fees based upon assets under management.

### **Investment Management Fee**

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Alethea provides investment management for an annual fee based upon a percentage of the market value of the assets being managed by Alethea. Alethea's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Alethea does not, however, receive any portion of these commissions, fees, and costs. Alethea's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being

managed by Alethea on the last day of the previous quarter. The annual fee varies (between 0.50% and 2.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

If assets in excess of \$100,000 are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is prorated to reflect the change in portfolio value. For the initial period of an engagement, the fee is calculated on a pro rata basis. In the event the Agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the unearned portion is refunded to the client, as appropriate.

### **Performance Fee**

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Alethea may also render investment management services to qualified clients for a performance-based fee in accordance with the requirements set forth in applicable laws, rules, and regulations. For those clients, Alethea charges a fee based upon a percentage of the market value of the assets being managed by Alethea ("base fee") in addition to a fee based on the performance of the account ("performance fee").

Alethea's base fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Alethea on the last day of the previous quarter. The base fee varies (between 0.50% and 2.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered. Alethea also charges a performance fee of up to twenty percent (20%) of the net performance of the account, subject to reaching an agreed-upon hurdle rate of return and also subject to a perpetual high water mark. Alethea's performance fee is charged annually, in arrears, based on the net gains of the client's portfolio at the end of the calendar period.

Alethea, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

### **Additional Fees and Expenses**

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In addition to the advisory fees paid to Alethea, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "Financial Institutions"). The Firm's brokerage practices are described at length in Item 12, below. These additional charges may include securities brokerage commissions, transaction fees, custodial fees, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Alethea's fee.

## **Fee Debit**

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Clients generally provide Alethea with the authority to directly debit their accounts for payment of the Firm's investment advisory fees. The Financial Institutions that act as qualified custodian for client accounts have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Alethea.

## **Account Additions and Withdrawals**

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Clients may make additions to and withdrawals from their account at any time, subject to Alethea's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Alethea, subject to the usual and customary securities settlement procedures. However, Alethea designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Alethea may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e., contingent deferred sales charge) and/or tax ramifications.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

As discussed in response to Item 5, above, Alethea may render investment management services to qualified clients for a performance-based fee. This fee arrangement raises conflicts of interest. The performance fee may be an incentive for Alethea to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where Alethea charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee.

Alethea has procedures in place to ensure that any recommendations made are in the best interest of clients regardless of whether the client is paying a performance-based fee or different type of fee.

## **Item 7. Types of Clients**

Alethea provides its services to individuals, pooled investment vehicles, trusts, estates, charitable organizations, corporations and business entities.

## Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

### Investment Strategies

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Alethea generally allocates client assets in or more of the following portfolios, based on their investment needs:

- 1) Domestic Equity;
- 2) Global Equity; and
- 3) International Equity.

From time to time, Alethea may implement strategies other than those mentioned above which are strategically allocated based on the investment needs of particular clients.

In addition to following individual markets, categories and indicators, Alethea also seeks out opportunities in the alternative investment and private placement industry. Alethea's due diligence team conducts rigorous analyses to identify managers and strategies that meet specific criteria: they must invest in unique opportunities, provide a competitive advantage relative to their peers and offer competitive pricing. Alethea views these investments as a complement to its asset management services or to traditional investments in equities, bonds, and real assets.

Alethea evaluates every potential investment by how it contributes toward clients' ultimate goals. Developing a financial plan or investment strategy tailored to a client's specific situation is an important part of that process. That is why Alethea offers complimentary planning services for both individual and institutional clients as part of its investment management fee. Cash flow management, education planning, retirement planning, investment planning, risk management and insurance planning, tax planning, estate planning and business succession planning for business owners are just some of the services offered.

### Methods of Analysis

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Alethea's primary methods of analysis are fundamental, technical and quantitative analysis.

Fundamental analysis involves the fundamental financial condition and competitive position of a company. Alethea will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help



to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Alethea will be able to accurately predict such a reoccurrence.

Quantitative analysis involves the application of mathematical methods to financial problems. Using statistical or mathematical algorithms, portfolios may be optimized for risk/return characteristics. The risks with quantitative analysis are similar to those of technical analysis since many inputs stem from historic mathematical patterns.

### Risks

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#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual funds and ETFs are subject to secondary market trading risks. Shares of mutual funds and ETFs will be listed for trading on an exchange, however, there can be no guarantee that an active trading market for such shares will develop or continue. There can be no guarantee that a mutual funds' and ETFs' exchange listing or ability to trade its shares will continue or remain unchanged. Shares of the mutual fund or ETF may trade on an exchange at prices above or below their most recent net asset valuation (NAV), which is the price for which an investor would buy or sell the mutual fund or ETF. The per share NAV of a mutual fund or ETF is calculated at the end of each business day, and fluctuates with changes in the market value of the mutual fund's or ETF's holdings. The trading prices of a mutual fund's or ETF's shares may differ significantly from NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's ETF's shares trading at a premium or discount to NAV.

#### *Options*

Alethea may recommend the use of options for certain clients. Options allow Alethea to hedge (limit) certain losses on positions clients hold. The option allows Alethea to buy or sell a security at a certain price (not the current market price). Clients pay a fee for the option. If the option falls outside the money (i.e., the market price of the security does not justify purchasing/selling the security at the option price), the client will lose the fee for that option.

#### *Market Risks*

The profitability of a significant portion of Alethea's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Alethea will be able to predict those price movements accurately.

#### *Use of Private Collective Investment Vehicles*

Alethea may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial

instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### *Management Through Similarly Managed Accounts*

Alethea may manage portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary portfolios mentioned above (collectively referred to as “investment strategy”). In so doing, Alethea buys, sells, exchanges and/or transfers various securities based upon the investment strategy.

Alethea’s management using the investment strategy complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the investment strategy, with a safe harbor from the definition of an investment company.

The investment strategy may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the investment strategy are usually exchanged and/or transferred without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to Alethea’s clients may be limited. For example, various mutual funds or insurance companies may limit the ability of Alethea to buy, sell, exchange or transfer securities consistent with its investment strategy. As further discussed in response to Item 12 (below), Alethea allocates investment opportunities among its clients on a fair and equitable basis.

## **Item 9. Disciplinary Information**

Alethea is required to disclose the facts of any legal or disciplinary events that are material to a client’s evaluation of its advisory business or the integrity of management. Alethea does not have any required disclosures to this Item.

## **Item 10. Other Financial Industry Activities and Affiliations**

Alethea is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Alethea does not have any required disclosures to this Item.

## Item 11. Code of Ethics

Alethea and persons associated with Alethea (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Alethea’s policies and procedures.

Alethea has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“Code of Ethics”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by Alethea or any of its associated persons. The Code of Ethics also requires that certain of Alethea’s personnel (called “Access Persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Alethea’s Code of Ethics, none of Alethea’s Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Alethea’s clients.

When Alethea is purchasing or considering for purchase any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Alethea is selling or considering the sale of any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Alethea to request a copy of its Code of Ethics.

## Item 12. Brokerage Practices

Alethea generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. (“Schwab”) and/or TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. (“TD Ameritrade”) for investment management accounts. Alethea participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (“TD Ameritrade”), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of

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securities, trade execution, clearance and settlement of transactions. Alethea receives some benefits from TD Ameritrade through its participation in the program.

Factors which Alethea considers in recommending Schwab, TD Ameritrade, or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Schwab and TD Ameritrade enable Alethea to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Schwab and/or TD Ameritrade may be higher or lower than those charged by other Financial Institutions.

The commissions paid by Alethea's clients comply with Alethea's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where Alethea determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Alethea seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Alethea periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

The client may direct Alethea in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution, and Alethea will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by Alethea (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Alethea may decline a client's request to direct brokerage if, in Alethea's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Alethea decides to purchase or sell the same securities for several clients at approximately the same time. Alethea may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Alethea's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Alethea's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Alethea determines to aggregate client orders for the purchase or sale of securities, including securities in which Alethea's Supervised Persons may invest, Alethea shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the

U.S. Securities and Exchange Commission. Alethea shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that Alethea determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, Alethea may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Alethea in its investment decision-making process. Such research generally will be used to service all of Alethea's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Alethea does not have to produce or pay for the products or services.

### **Software and Support Provided by Schwab**

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Alethea may receive from Schwab, without cost to Alethea, computer software and related systems support, which allow Alethea to better monitor client accounts maintained at Schwab. Alethea may receive the software and related support without cost because Alethea renders investment management services to clients that maintain assets at Schwab. The software and related systems support may benefit Alethea, but not its clients directly. In fulfilling its duties to its clients, Alethea endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Alethea's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Alethea's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Alethea may receive the following benefits from Schwab through their respective institutional divisions: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services institutional firms; access to block trading which provides the ability to

aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### **Software and Support Provided by TD Ameritrade**

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As discussed above, Alethea participates in TD Ameritrade's institutional customer program and Alethea may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between Alethea's participation in the program and the investment advice it gives to its clients, although Alethea receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related to products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; access to an electronic communication network for client order entry and account information; access to mutual funds with no transaction fees and certain institutional money managers; and discounts on marketing, research, technology, and practice management products or services provided to Alethea by third party vendors.

Some of the products or services may assist Alethea in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Alethea manage and further develop its business enterprise. The benefits received by Alethea's participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duty to clients, Alethea endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Alethea or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Alethea's recommendation of TD Ameritrade for custody and brokerage services.

Alethea's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Alethea, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Alethea's client accounts maintained at TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Alethea may have an incentive to recommend to its clients that the assets under management by Alethea be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. Alethea's receipt of Additional Services does not diminish its duty to act in the best interest of its clients, including to seek best execution of trades for client accounts.

## Item 13. Review of Accounts

Alethea monitors client portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by Alethea's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Alethea and to keep Alethea informed of any changes thereto. Alethea shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. In addition, clients will also receive a report from Alethea that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a monthly basis. Clients should compare the account statements they receive from their custodian with those they receive from Alethea.

## Item 14. Client Referrals and Other Compensation

Alethea is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Alethea is required to disclose any direct or indirect compensation that it provides for client referrals. Alethea has no disclosures pursuant to this Item.

## Item 15. Custody

Alethea's Agreement and/or the separate agreement with any Financial Institution may authorize Alethea through such Financial Institution to debit the client's account for the amount of Alethea's fee and to directly remit that management fee to Alethea in accordance with applicable custody rules.

The Financial Institutions recommended by Alethea have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Alethea. In addition, as discussed in Item 13, Alethea also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Alethea.

## The Private Funds

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Alethea acts as investment adviser to the Private Funds and due to Alethea's role as general partner of the Private Funds, Alethea is deemed to have custody of client assets. As such, Alethea requires an annual audit of the Private Funds by an independent public accountant registered with, and subject to regulatory inspection by, the Public Accounting Oversight Board (PCAOB). Alethea distributes the audited financials to each investor within 120 days of the Private Funds fiscal year-end.

## Item 16. Investment Discretion

Alethea is given the authority to exercise discretion on behalf of clients. Alethea is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Alethea is given this authority through a power-of-attorney included in the agreement between Alethea and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Alethea takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The Financial Institutions to be utilized.

## Item 17. Voting Client Securities

Alethea may vote client securities (proxies) on behalf of its clients. When Alethea accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully described in Alethea's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Alethea's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Alethea to request information about how Alethea voted proxies for that client's securities or to get a copy of Alethea's Proxy Voting Policies and Procedures. A brief summary of Alethea's Proxy Voting Policies and Procedures is as follows:

- Alethea has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Alethea's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting



decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.

- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Alethea devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Alethea's vote on a particular solicitation but can revoke Alethea's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Alethea maintains with persons having an interest in the outcome of certain votes, Alethea takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

Alethea does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Alethea is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Alethea has no disclosures pursuant to this Item.

## **Alethea Capital Management, LLC**

*a Registered Investment Adviser*

Prepared by:

