



## Part 2A of Form ADV: Firm Brochure

### Item 1 - Cover Page

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This brochure provides information about the qualifications and business practices of Strategic Fixed Income, L.L.C. ("Strategic"). If you have questions about the content of this brochure, please contact us at the number shown above. The information in this brochure has not been approved or verified by the SEC, any other agency or department of the federal government, or by any state securities or other authority.

Additional information about Strategic is available on the website of the United State Securities and Exchange Commission ("SEC") at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Strategic is an investment adviser registered with the SEC under the Investment Advisers Act of 1940 ("Advisers Act") and a commodity trading advisor and commodity pool operator registered with the Commodity Futures Trading Commission ("CFTC") under the Commodity Exchange Act ("CEA"). These registrations do not imply a certain level of skill or training.



## **Item 2 - Material Changes**

This Part 2 of Strategic's Form ADV was prepared in accordance with the applicable Rules under the Advisers Act.

Under Item 8, we have added an explanation of the new and changing regulations under Dodd-Frank Wall Street Reform and Consumer Protection Act.

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Strategic does not vote on client securities.

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Not Applicable.

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Not Applicable.

#### **Item 4 - Advisory Business**

Strategic commenced operation on June 1, 1991 and specializes in discretionary global fixed income portfolios and a global-macro hedge fund.

All portfolios adhere to a discretionary, actively managed top-down investment strategy that capitalizes on anticipated directional trends in global interest rates, fixed income, and foreign exchange while maintaining a highly liquid portfolio which avoids illiquid and non-investment grade corporate credits. Investments are made primarily in sovereign debt of developed markets, highly rated debt instruments, foreign currencies, and derivatives based on them. Strategic ensures that assets in clients' portfolios are transparent to advisory clients and to investors in the commingled fund and the hedge fund sponsored by Strategic so that clients and investors can accurately analyze their respective portfolios' performance and exposure to risk.

The sole owner of Strategic is Gobi Investment Inc. the managing member owning 100% of Strategic.

The Officers of Strategic are Kenneth A. Windheim, President /Chief Investment Officer and Patricia M. Arcoleo, Vice President/Chief Operating Officer/Chief Compliance Officer.

Strategic Fixed Income UK, LLP is an indirectly owned subsidiary of Strategic.

The types of advisory services Strategic offers include:

- Global Fixed Income
- Non-Dollar Fixed Income
- Short-term
- Hedge Funds
- Hybrid mandates

Strategic tailors strategies for the individual needs of clients who maintain separate accounts with us. These typically include instructions relating to adherence to particular benchmarks selected by the client and investment constraints designed by the client.

Strategic does not participate in wrap fee programs.

As of December 31, 2012, Strategic managed \$2,907,000,000 in client assets, all of which are managed on a discretionary basis.

#### **Item 5 - Fees and Compensation**

All advisory clients with separate accounts and all investors in the collective investment vehicles or the hedge fund managed by Strategic are qualified purchasers (except, in the latter case, for certain knowledgeable employees who are permitted to invest).

Strategic's separate accounts – the commingled vehicle and the hedge fund – incur transaction fees that are payable by them. Investors in the commingled vehicle must

bear the cost of custody fees charged by the trustee. The hedge fund incurs fees payable to the prime brokers, the administrator and the audit fees of the fund.

Advisory fees charged by Strategic are not paid in advance. Fees are billed on a quarterly basis. In the event of a termination of a client relationship only a pro-rata portion of the fee will be billed.

Compensation of Strategic's supervised persons is not based on sales.

Strategic does not offer or recommend other investment products through brokers or agents. Strategic does not receive or charge any commissions or other compensation except for its advisory fees for the management of client assets.

#### **Item 6 - Performance-Based Fees and Side-By-Side Management**

Some separate accounts and the hedge fund pay Strategic a performance based fee. All accounts with similar mandates invest in the same types of investments regardless of whether they pay a performance fee.

Strategic's Chief Investment Officer, Chief Operating Officer, certain other knowledgeable employees of the firm and its indirectly owned subsidiary, own – directly or indirectly – interests in Strategic's commingled vehicle and/or in the hedge fund sponsored by Strategic. As such, they participate personally in any increase or decrease in the value of the assets or net profits realized by these investment vehicles and/or hedge fund to a greater degree than they will benefit from increases or decreases in the value of assets or net profits realized by other clients. For this reason, and because we receive a performance-based fee from the hedge fund from which our officers and employees may benefit to a degree greater than in the case for revenues derived from clients who pay only investment management fees, Strategic could be viewed as having a conflict of interest when making investment decisions for and allocating investment or particular transactions to the hedge fund or the commingled vehicle on the one hand and or to other clients on the other.

Strategic believes that its investment decisions for clients, including its allocations of investments and transactions to clients, are not affected by these potential conflicts and that all investment decisions are made in good faith and fairly at all times for the benefit of all of Strategic's clients.

#### **Item 7 - Types of Clients**

- Corporate
- Public
- Insurance
- Supranational
- Sovereign Wealth
- Sub-Advised mutual funds
- Commingled Delaware Business Trust
- Hedge Fund
- Trusts

The minimum separate account size for a fixed income long-only strategy is \$25 million. The minimum separate account size for the hedge fund strategy is \$50 million.

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

We conduct internal proprietary analysis of macroeconomic data and also use third party research providers.

Strategic forms a macro view based on quantitative and qualitative analysis of market and economic data from central banks, government agencies and supranational organizations. Individual factors include but are not limited to: inflation rates, economic growth, monetary and fiscal policy, balance of payments, interest rate differentials, and capital flows.

Liquidity is of paramount importance to the management of accounts. Generally 90% or more of the portfolio could be liquidated in a few hours and the balance could be liquidated in 24 hours. All securities are priced daily and are considered Level 1 positions.

Our long-only accounts utilize a top-down investment strategy that capitalized on anticipated directional trends in global interest rates, fixed income, and foreign exchange. Fundamentals provide the basis on which Strategic overweights or underweights the fund's portfolios relative to its economic models. Once a judgment is made on the fundamentals, Strategic will turn to its technical models, which seek to identify price trends, to see if they conform. If both sets of models agree, Strategic will overweight or underweight the bond markets as the indicators dictate. If the two do not agree, Strategic takes a neutral position in that market. The strategies include global hedged or un-hedged. The investment process encompasses country allocation, currency management, credit selection, yield curve selection, and security selection. The portfolio generally consists of governments, supranational issues, and foreign exchange and futures contracts. Actively managed duration and sector selections are utilized to exploit inefficiencies when opportunities arise. Macroeconomic models are used to set duration strategy. The possibility of rapidly changing interest rates can expose these accounts to losses (which in the case of increases, will reduce the market value of instruments held) or severe and sudden deterioration of economic conditions in the nations whose debt instruments are held (including the possibility of sovereign defaults), which would adversely affect the value of such instruments to the extent that these risks are not adequately hedged or in the event those who have provided such hedges prove unable or unwilling to fulfill their contractual obligations.

The hedge fund focuses primarily on macroeconomic trends and has exposure to fixed income instruments, foreign exchange, commodities and equities that we deem to exhibit interest rate-sensitive characteristics. The hedge fund uses leverage conservatively to achieve its target risk and return objectives (our range has been under 3.5X, the fund is allowed up to 10X). We measure leverage by taking the notional value of all futures contracts and delta adjusted option exposures. Fixed income futures are adjusted to reflect their 10-year equivalent exposure. Leverage has the effect of magnifying losses as well as gains and has been implicated as a leading factor in the heavy losses sustained by certain hedge funds in recent years. When using leverage,



even a relatively small change in the price of a contract can produce a large profit or loss.

The accounts take directional risk in liquid foreign exchange and fixed income markets and, in the case of the hedge fund, equities and interest rate-sensitive commodities which we perceive to be less risky. Strategic avoids illiquid holdings, carry trades and spread products to mitigate risk.

Investment risk is managed by using two risk systems. The first is Biton, our proprietary portfolio accounting system, which is a real-time front and back-office system, and the second is RiskManager, licensed through RiskMetrics.

In the case of both long-only accounts and the hedge fund, we are engaged in frequent adjustments of the positions held and, as a result, both incur what could be viewed as high transaction costs (especially when these transactions are effected primarily over-the-counter with counterparties acting as dealer rather than through an agent on an organized exchange, even though the markets for the instruments in which we trade are generally regarded as deep, liquid and efficient), and these costs that affect the overall profitability of the strategies employed and can increase losses when losses are experienced.

**Exchange Rate Risk:** Currency holdings may fluctuate when currencies strengthen or weaken against the U.S. dollar. Currency exchange rates generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries, as viewed from an international perspective. Currency exchange rates can also be affected by the activities of governments and central banks and by political developments.

**Spot and Forward Contracts:** Strategic transacts in currency spot and forward contracts and OTC currency options. These contracts are not traded on exchanges at this time. Broker/dealers and banks typically act as principals in these markets, which collectively are referred to as the interbank or forex market. At present, no governmental agency or organized exchange regulates trading in spot or forward contracts. Consequently, there is no limit on the daily price movements of these contracts. Because performance of these contracts is not guaranteed by any exchange or clearinghouse, the accounts we manage may be subject to counterparty risk. Also, the imposition of credit controls by governmental authorities might limit such forward trading to less than what the Investment Manager would otherwise recommend, to the possible detriment of the accounts we manage. The markets for foreign exchange are undergoing material change as a result of enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and future actions by federal government authorities (e.g., The Department of the Treasury and/or The Commodity Futures Trading Commission ("CFTC")).

**Hedging Transactions:** Strategic may hedge some or all of the positions by taking offsetting long or short positions in the accounts we manage. While hedging is intended to protect against adverse price movements, it also has the effect of lowering a trade's profit potential. In addition, all hedging involves costs, including the purchase price of the instruments used for the hedge and related transaction expenses. These may, on occasion, outweigh the benefits to be derived from the hedge.

The greater the similarity between the instrument being hedged and the instrument providing the hedge, the more successful the hedge is likely to be. A number of factors may cause the correlation between a hedging instrument and a portfolio position to be reduced or lost. Failure of the hedging strategy in a leveraged portfolio may cause the portfolio to lose more than its net asset value. For these reasons, the Strategic may choose not to hedge, to hedge only a portion of a position or to implement a hedge only when warranted by specific market indicators. The duration of the hedge is also a matter within our discretion.

**Short Sales:** Strategic may sell securities or other instruments short. The possible loss from a short sale and the loss from a purchase may present very different risks: The loss from a short sale may be unlimited due to the obligation to replace the borrowed securities at their cost at the time of replacement or repay the other instrument with cash. In contrast, a loss from the purchase of securities cannot exceed the total amount invested plus transaction costs.

**Fixed Income Securities:** The prices of fixed income securities, such as mortgage-related securities, may be highly volatile. Price movements are influenced principally by changes in interest rates. Interest rate risk is the potential for a decline in fixed income security prices due to rising interest rates. Interest rates are influenced by general economic conditions and the market's evaluation of bullish and bearish economic indicators and by the related monetary and fiscal policies of the federal government.

**Counterparty Risk:** The accounts we manage may trade in markets in which performance is the responsibility of the individual counterparty and not of an exchange or clearinghouse. In these cases, the accounts we manage may be subject to the risk that the counterparty will be unable or unwilling to perform its obligations. In response to such risk, many counterparties now require the posting of collateral. However, this collateral may be difficult to liquidate in a market crisis. Approved counterparties used to transact such instruments are listed in our broker/dealer approved list.

**Foreign Investments:** The accounts we manage may invest in securities and other instruments traded in markets outside the U.S. An investment in a non-U.S. issuer involves the potential for certain risks not typically associated with an investment in a U.S. issuer. For example, foreign securities markets are often less liquid and less efficient than in the U.S. with correspondingly greater price volatility. In addition, there tends to be a lesser degree of governmental regulation in these markets; different accounting, disclosure and reporting requirements; higher transaction and custody costs; more delays in settling transactions, less publicly available information about issuers; more difficulties in enforcing contractual obligations; and generally more substantial government involvement in the economy. Other differences involve the imposition of withholding or other taxes; restrictions on the expatriation of funds or other assets of an issuer; higher rates of inflation; greater social, economic, and political uncertainty, greater risk of nationalization or expropriation of assets, and greater risk of war. Transactions executed in markets outside the U.S. generally are not regulated or supervised by U.S. regulatory bodies.

**Futures:** Future contracts are used by some of the accounts we manage. A future contract is a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of

the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The futures markets are characterized by the ability to use very high leverage relative to stock markets. Futures can also be used either to hedge or to speculate on the price movement of the underlying asset. Futures transactions require low margin deposits relative to the notional value of the contract purchased or sold and may permit an extremely high degree of leverage.

**Commodity Interest Trading:** Commodities are traded in the hedge fund product only. A principal risk in investing in commodity interests is the volatility of market prices. These prices may fluctuate rapidly and over wide ranges because of unforeseeable events or changes in market conditions. None of these factors can be controlled by Strategic. It may not always be possible to execute a buy or sell order at the desired price, or to close out an open position, in the commodity interest markets due to illiquidity. Such illiquidity may be caused by intrinsic market conditions (for example, a lack of demand) or it may be the result of extrinsic factors like the imposition of daily price fluctuation limits (which set a floor and ceiling on the price at which a futures contract or option thereon may be executed) or circuit breakers (which halt trading in certain stocks and stock indices whenever the Dow Jones Industrial Average or the S&P 500 stock index declines or rises by a certain number of points).

**Options on U.S. and Non-U.S. Instruments:** Strategic may purchase put and call options on commodity interests, securities and currencies depending on the type of fund. In addition, we may buy or hedge a portion of clients' investments in securities through writing (that is, selling) "covered" call and put options. If an option purchased is not sold or exercised when it has remaining value, or if at expiration the market price of the underlying instrument remains equal to or greater than the exercise price (in the case of a put) or remains equal to or below the exercise price (in the case of a call), the accounts with these positions will lose its investment in the option, that is, the premium paid upon purchase. For the purchase of an option to be profitable, the market price of the underlying instrument must decline sufficiently below the exercise price (in the case of a put) or must increase sufficiently above the exercise price (in the case of a call) to cover the premium and transaction costs.

By writing a covered call, the accounts forgo the opportunity to profit from an increase in the market value of the underlying instrument above the exercise price (plus the premium received) of the option for as long as the accounts' obligation as writer of the option continues or in the event the option is exercised. Thus, in some periods the accounts' will receive less total return and in other periods, greater total return from its hedged positions than it would have received from its underlying instruments if unhedged. By writing a covered put, the accounts forgo the opportunity to profit from a decrease in the market value of the underlying security below the exercise price (plus the premium paid) of the option for as long as the accounts' obligation as writer of the option continues or in the event the option is exercised.

**Swaps:** Strategic may enter into transactions for certain accounts that are characterized as swap transactions and may involve interest rates, currencies, securities interests, commodities, and other items. For example, in a commodity swap, one party makes payments based on a fixed price and receives payments based on the actual (floating) price of the particular commodity. Transactions in these markets present certain risks which are similar to those in the futures, forward and options markets. Only the

accounts of “eligible contract participants,” as defined in Part 35 of CFTC’s Regulations, may engage in swaps. Over-the-counter swaps are undergoing significant regulatory changes as a consequence of enactment of the Dodd-Frank Act.

Strategic does not recommend any particular types of securities.

**New and Changing Regulation.** Many types of financial instruments traded by Strategic for its clients, including collective investment vehicles, are not currently traded on exchanges or boards of trade and are not standardized, but instead are traded over-the-counter by banks and dealers acting as principal, negotiating the price and terms of each transaction on an individual basis. Counterparties to such transactions are exposed to default risks greater than and different from those that attend trading in standardized financial instruments on an exchange that are cleared through a clearinghouse. There are no limitations on daily price movements in or speculative position limits applicable to over-the-counter instruments as there are on certain exchange-traded financial instruments. Further, principals who deal in over-the-counter instruments are not required to continue to make markets in them, as is the case under applicable exchange rules for market making dealers on exchanges, and certain of those principals have experienced periods of significant illiquidity or have either refused to quote prices for particular over-the-counter instruments or have quoted prices with an unusually wide spreads between the prices at which they were prepared to buy and sell them, something that has also occurred, though less often, in the case of market makers on exchanges. Market illiquidity or disruption or default by a counterparty to an over-the-counter instrument contract to which a client is a counterparty would increase significantly the risk of major losses to the client stemming from holding a position in an over-the-counter instrument subject to such an event.

As a result of enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, many derivatives not now traded on an exchange, including over-the-counter instruments, will be required to be cleared and executed on facilities regulated by the CFTC or the SEC. CFTC and SEC rules and corresponding changes in the trading markets for these instruments, however, have yet to be completed and their final form and reach cannot now be determined or predicted. Foreign regulatory authorities have similar regulatory initiatives underway with respect to such financial instruments traded in their markets. Until such changes occur, trading over-the-counter instruments will remain subject to little, if any, regulation.

There can be no assurance that adoption of any of the new types of regulation being contemplated by the U.S. or foreign authorities will have a favorable impact on the functioning or financial reliability of the markets for over-the-counter instruments, or the markets for financial instruments generally or reduce the risks inherent today in trading in or holding positions in such instruments. While as an historical matter, defaults in the performance of financial instrument contracts have been few, there have been notable exceptions, such as the near-failure of Short Term Capital Management, the failure of Bear Stearns, the collapse of Lehman Brothers, and the bail-out of AIG in recent years. Some are concerned that, if such initiatives do not improve the markets for financial instruments globally, public confidence in those markets could be further eroded, thus augmenting the risks already posed by participation in these markets by Strategic’s clients. Further, even if such regulation were to have the beneficial effects on the markets for financial instruments being sought, the overall effects may be to reduce the profitability of trading in such instruments to the disadvantage of Strategic’s clients.

**Item 9 - Disciplinary Information**

Strategic does not have any legal or disciplinary events.

**Item 10 - Other Financial Industry Activities and Affiliations**

Strategic is registered as a Commodity Trading Advisor and a Commodity Pool Operator.

Strategic is a Member of the National Futures Association.

Strategic is registered with the Ontario Securities Commission.

Strategic Fixed Income UK, LLP is registered with the Financial Services Authority.

Strategic manages a commingled Delaware Business Trust (Non-Dollar Bond Fund) and an offshore Cayman Island registered hedge fund (The Capital Hedge Fund, Ltd.).

Strategic does not recommend or select other investment advisers for its clients.

**Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

A copy of Strategic's Code of Ethics is available to clients and prospective clients upon request.

Strategic maintains a written Code of Ethics Policy, which also applies to Strategic UK, that emphasizes that Strategic and Strategic UK are fiduciaries to its clients and that the interests of Strategic's clients supersede the personal, private interests of the employees of Strategic and Strategic UK.

The Code also provides for the maintenance of all information concerning clients in strict confidence, it states that personal investing by employees should be conducted in a manner that avoids conflicts of interest or the appearance of such conflicts with clients, and prohibits transactions by access persons (i.e., employees of Strategic who participate in the formulation of investment strategies for or trading on behalf of clients or who have access to information concerning such matters) in securities held or to be held by a client on the same day during which, to the access person's actual knowledge, the client will have effected or has effected a transaction in such security or will have or has pending an unexecuted order to buy or sell such a security. In addition, the Code prohibits any conduct that would constitute a device, scheme or artifice to defraud or deceive any client in connection with the purchase or sale by an employee of a security held or to be held by any client; requires employees to disclose potential conflicts of interest with any client, and provides for the taking of appropriate action where such a conflict is determined to exist.

The Code also prohibits any acquisitions of a security by an access person in an initial public offering or a private placement without explicit approval by Strategic, except where the access person has no direct or indirect influence or control over such a

transaction. The Code requires regular reporting by access persons of their securities holdings and transactions in securities to Strategic as well as regular examination of such information to ascertain whether access persons' transactions have been consistent with the Code. The Code requires employees to understand and comply with applicable federal securities laws, and United Kingdom securities laws in the case of employees of Strategic UK, provides for the investigation of possible violations of the Code by employees, and for appropriate action with respect to any violation that is believed to have occurred.

Strategic employees are precluded from transacting in a particular security on any day when that security is under consideration for purchase, sale or an order to buy or sell is pending for a client's portfolio.

Very few employees engage in any personal trading at all much less in close proximity to decisions made to buy or sell particular securities for the funds or other clients, and Strategic looks for patterns that indicate otherwise when employees do trade.

## **Item 12 - Brokerage Practices**

Strategic has sole and exclusive authority to select broker-dealers, commodity futures commission merchants, and banks (collectively, "broker/dealers"), both domestic and foreign, with whom client transactions will be executed, cleared and settled, and to establish with such broker-dealers accounts for these purposes, except as otherwise constrained by a particular client. Client transactions generally are effected on a principal basis with such broker/dealers at prices that Strategic, in its professional judgment, believes represent the most favorable prices obtainable at the time of each transaction. In some cases, such as the purchase or sale of equity securities, broker/dealers and banks act as agent in transactions for client accounts.

In selecting broker/dealers with whom client transactions may be effected, Strategic does not take into account whether the broker/dealer has introduced or may in the future introduce prospective clients. Certain broker/dealers utilized by Strategic for client transactions may provide or may have provided research, statistical or other services. Strategic, however, will pay for such information of its services out of its own resources. Strategic does not engage in any soft-dollar practices. Strategic does not compensate broker/dealers for such information or services through transactional compensation of the provision of a flow of orders from Strategic's clients.

Except when to do so would be inconsistent with investment guidelines or restrictions communicated by the client to Strategic, Strategic purchases or sells similar investments for all client accounts having similar mandates, and sometimes for accounts that do not have similar mandates, and allocates each purchase and sale of an investment pro-rata among such accounts based on their relative size. To that end, when Strategic determines to purchase or sell an investment for client accounts, Strategic places the purchase or sell order on an "aggregated" basis with the broker/dealer or bank selected to effect the transaction, and causes such broker/dealer or bank, in coordination with the various custodians of client account assets, to allocate the purchase or sale pro-rata among client accounts having similar mandates such that all client accounts participating in the "aggregated" order pay a pro-rata share of the purchase price, or receive a pro-rata share of the sale proceeds.



Strategic is the sponsor of a hedge fund (with a master fund and a feeder fund), The Capital Hedge Fund, Ltd., ("CHF") which was formed in January, 2000. Strategic is also the sponsor of The Non-dollar Bond Fund. These are managed by Strategic in an effort to maximize returns from shifts in economic conditions, both domestic and foreign. The assets raised by the CHF are invested in a broad portfolio of investments, subject to certain general limitations to the extent to which they can be invested in equities and commodities. The assets of the Non-dollar Bond Fund are invested in foreign and domestic fixed income securities, currencies, futures and options.

Strategic will make its allocation decision with respect to a certain investment on the basis of its subjective assessment of the manner in which that investment would affect each fund's overall portfolio and exposure to various types of risk, sometimes resulting in allocations otherwise than on a pro-rata basis. In each such case, Strategic will make its allocation decision in good faith in a manner that it believes is fair and equitable to each fund under the circumstances and in the best interests of each of them.

The accounts established by Strategic with broker/dealers or banks are established solely to facilitate the execution of transactions for the accounts of advisory clients and Strategic does not and will not have a proprietary interest in or access to the funds or securities held in any such account. When selecting broker/dealers to execute transactions, Strategic considers several factors, including among others, a broker/dealer's ability to provide best execution, its willingness to commit capital, its financial stability, its systems, facilities and recordkeeping, and its experience in handling similar transactions (based on size, market conditions, type of security, among other factors). To facilitate Strategic's review and consideration of these factors, Strategic periodically analyzes the overall value provided to client accounts by individual broker/dealers, each broker/dealer's rates of commissions, mark-ups and mark-downs, and other applicable fees and charges, and its overall responsiveness to Strategic. Additionally, Strategic considers a broker/dealer's relative performance as reported in industry surveys and studies of execution quality. While Strategic's policy is to seek best execution, there may be occasions where Strategic uses a broker-dealer that charges a higher transaction fee than another might charge if Strategic determines in good faith that the amount of such costs is reasonable in relation to the value of the product and/or service provided by the executing broker/dealer to Strategic's clients considered as a whole. In a given instance, the transaction fees paid may not be of specific benefit to one or more particular advisory clients that have paid for some or all of those fees. Information used by Strategic in evaluating broker/dealers and banks includes rating information from several agencies. Strategic reviews broker-dealers quarterly.

Strategic does not engage in any soft dollar practices.

Brokerage for Client Referrals is not applicable.

Directed Brokerage is not applicable.

### **Item 13 – Review of Accounts**

To accurately value the portfolios and funds, Strategic reflects market movements in its records of such values by daily re-pricing all components including securities, cash,

payables/receivables and forward foreign exchange contracts, so that new ending market values will accurately reflect current market prices.

Strategic's primary source for pricing securities is Bloomberg LP. A file with the holdings of all portfolios is uploaded from Biton daily to Bloomberg. Bloomberg's closing prices are then downloaded into the file each night automatically. Our accountants will access Biton the next morning, execute the program to upload prices into the Biton system, and review the output from the upload. This program generates three variance reports for our accountants to review.

Our accountants will review the Biton report that contains all portfolio securities as of the previous day's close used to verify that the Bloomberg download file priced all securities held. In addition, an exceptions report is produced by Biton daily that lists any security that did not price overnight and/or any security which has a \$.50 cent change from the previous day's price.

Strategic's spot rate source is *The Financial Times* for the long-only accounts and Bloomberg New York Close for the hedge fund. The rates are manually inputted for the long-only accounts and are part of the Bloomberg upload for the hedge fund. Our accountants will verify the output report for accuracy. If any discrepancies are noted, they are recorded and brought to the attention of the Accounting Supervisor for appropriate action.

Cash (in all currencies) is an integral part of the portfolios or funds, cash is reconciled daily by the accounting group. Each cash detail statement will reflect any interest credited to the account or charges deducted including daily margin moves for portfolios and funds that trade futures. A detailed audit trail of the cash proof is retained. Any difference greater than \$250.00 is questioned and adequate support requested from the custodian bank, prime broker or administrator. The portfolios and funds forward points' source is New York close which is provided via Bloomberg auto-feed.

All separate account clients and investors in the funds which Strategic manages receive written monthly reconciliation reports.

#### **Item 14 – Client Referrals and Other Compensation**

We have entered into a solicitation agreement with Stephen Kaboyo, a resident of Uganda, pursuant to which Mr. Kaboyo may solicit in Africa prospective institutional advisory clients or investors in any collective investment vehicle sponsored and managed by us. Under the agreement, and in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940, we will pay Mr. Kaboyo a fixed annual fee during the term of the agreement and a "success fee" in respect of any new client or investor to whom he introduces us and who either forms and maintains an investment advisory relationship with us, committing to our investment discretion a funded account, or an investment in any of our sponsored collective investment vehicles. The "success fee" will be a declining percentage of the advisory fee payable to us by the new client or by the collective investment vehicle in respect of the new investor's investment over a three-year period.



**Item 15 - Custody**

Not Applicable.

**Item 16 - Investment Discretion**

All separate accounts and funds managed by Strategic are on a discretionary basis.

All accounts must have executed investment management agreements with Strategic prior to the commencing the management of the account.

All portfolio managers are provided with a copy of the complete client guidelines along with any deviation from our standard investment guidelines and policies. Prior to receiving this information, the contracts and guidelines are reviewed and approved by the Chief Operating Officer/Chief Compliance Officer to ensure full understanding and acceptance of the respective guidelines. The guidelines are input into our proprietary portfolio accounting system, Biton, which itself highlights or flags positions that appear to vary from limits established by the client's guidelines. The settlements department has the responsibility of monitoring all trading activity for all client portfolios. There are specific areas of audit that must be performed to ensure that the portfolio managers are trading in compliance with client guidelines and restrictions, as well as internally set guidelines and restrictions as they relate to the management of each client portfolio or fund.

**Item 17 - Voting Client Securities**

Strategic does not vote on client securities.

**Item 18 - Financial Information**

Not Applicable.

**Item 19 - Requirements for State-Registered Advisers**

Not Applicable.