

**Part 2A of Form ADV: *Firm Brochure***

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**This brochure provides information about the qualifications and business practices of Scott's Cove Management LLC (hereinafter "SCM" or "we"). If you have any questions about the contents of this brochure, please contact SCM at (212) 899-3570 or at [schaeffer@scottscove.com](mailto:schaeffer@scottscove.com). 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 SCM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the Securities and Exchange Commission does not imply any level of skill or training.**

**Item 2    Material Changes**

Since the last annual filing of our last Form ADV Part 2A, we have no material changes to report.

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#### **Item 4. Advisory Business**

We are an investment adviser registered with the SEC with our principal place of business in New York, New York. We were founded in 2011 and are owned by Phillip Schaeffer, Philip Acinapuro, and Stephen Levitan, each a Managing Member of SCM.

We serve as an investment manager and provide investment management services on a discretionary basis to a number of private funds (each, a "Scott's Cove Fund" and collectively, the "Scott's Cove Funds") and a separately-managed account for an institutional investor.

We provide advice to client accounts based on specific investment objectives and strategies. The investment objectives of the Scott's Cove Funds are outlined in their respective offering documents. Please refer to Item 8 of this Brochure for a more detailed description of our investment methods and strategies. We may tailor advisory services to the individual needs of clients.

As of December 31, 2016, we had \$75,070,807 of discretionary regulatory assets under management. We do not manage any assets on a non-discretionary basis.

The information provided herein merely summarizes the detailed information provided in each client's organizational and offering documents. Prospective investors should be aware of additional risks and requirements associated with investment. Prospective investors should refer to the appropriate organizational and offering documents for important additional information and considerations prior to investing.

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

For our services to the Scott's Cove Funds, we receive a management fee and an incentive allocation or incentive fee, as described below.

We earn an annual management fee with respect to the Scott's Cove Funds ranging from 1.0% to 1.5% of the net assets of the Scott's Cove Fund, adjusted for capital contributions and any withdrawals or debit balance during the period. If a new client account is established during a quarter or a client makes an addition to its account during a quarter, the management fee will be prorated for the number of days remaining in the quarter. The management fee is directly debited from each client account quarterly, in arrears, in accordance with the applicable organizational or offering documents. If a client's management agreement is terminated or a withdrawal is made from a client account during a quarter, the fee will be calculated based on the value of the assets on the termination date or withdrawal date and prorated for the number of days during the quarter in which the investment management arrangement was in effect or such amount was in the account.

It is our policy to charge an annual management fee ranging from 0.75% to 1.50% of the net assets of the client account with respect to any separately managed account. Such fees may be negotiated on an individual basis.

We may also be paid an incentive fee or incentive allocation with respect to the Scott's Cove Funds equal to 20% of any net capital appreciation (including net unrealized gains) of the assets of the particular Scott's Cove Fund. The incentive compensation is directly debited from each of the Scott's Cove Funds' client accounts at the end of the calendar year in accordance with the respective Scott's Cove Fund's organizational or offering documents.

It is our policy to charge an annual incentive fee ranging from 15% to 25% of the profits of the client with respect to any separately managed account. Such fees, the calculation methodology for profits, high water marks and other items may be negotiated on an individual basis.

We do not charge a management fee or an incentive allocation/fee to investors in the Scott's Cove Funds who are our employees or members of employees' immediate families (including godparents and godchildren of such persons).

In addition to fees paid to us, as appropriate, clients will also be responsible for the fees and expenses charged by custodians and imposed by any broker dealer with which we effect transactions for clients; commissions and related costs; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; fund legal, auditing and accounting expenses; other portfolio expenses; and costs, expenses and fees (including investment advisory and other fees charged by investment advisers with, or funds in, which the client's account invests) associated with products or services that may be necessary or incidental to such investments or accounts. Please refer to Item 12 of this brochure for additional information regarding brokerage.

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

As disclosed in Item 5 of this brochure, we accept an annual incentive allocation or fee from each client, as applicable. An incentive allocation or fee is a form of performance-based fee which is calculated based on a share of gains and income on or capital appreciation of the assets of the client. In addition, our investment personnel are typically compensated on a basis that includes a performance-based component.

Performance-based fees can create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Also, because the incentive allocation or fee is calculated on a basis which includes unrealized as well as realized appreciation of assets, it may be greater than if such compensation were based solely on realized gains.

At this time, we do not offer advisory services to clients who do not pay performance-based fees, and therefore, we do not have an incentive to favor performance-based fee accounts over non-performance-based fee accounts. However, in theory, we could have incentive to favor a client (such as a separately-managed account) with significantly greater assets than other clients or a client otherwise paying higher aggregate performance-based fees than those paying less. Again, in theory, we may have incentive to favor a Scott's Cove Fund in which the officers and employees of our firm may have more of their personal assets invested over other clients. Since we endeavor at all times to put the interest of our clients first as part of our fiduciary duty as an investment adviser, we take the following steps to address these conflicts:

- we hereby disclose to investors and prospective clients the existence of material conflicts of interest, including the potential for our firm and its employees to earn more compensation from some clients than others;
- we have implemented written policies and procedures for fair and consistent allocation of investment opportunities among all clients, subject to each client's underlying strategy, cash availability and other appropriate considerations;
- we periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment;
- we educate our employees regarding the responsibilities of a fiduciary, including the equitable treatment of all clients, regardless of the fee arrangement.

These areas are monitored by the Phillip Schaeffer, our Chief Compliance Officer (the "Chief Compliance Officer").

Performance-based fees will only be charged in accordance with the provisions of Rule 205-3 under the Investment Advisers Act of 1940 (the "Advisers Act") and/or applicable state regulations.

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

Our firm provides investment management services to several private investment funds and separately-managed accounts, as disclosed at Item 4 of this Brochure.

It is our general policy to require a minimum investment of \$20 million to open a separately-managed account, but several factors could increase or decrease this minimum. Except as may be permitted by us or by an affiliate, the minimum required initial investment in any one of the Scott's Cove Funds is as disclosed in the relevant offering memorandum.

Prospective investors should refer to the appropriate Scott's Cove Fund offering documents for additional important qualifications requirements for investment.

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

We use a variety of methods and strategies to make investment decisions and recommendations. Our investment strategy is generally driven by an intense fundamental research discipline in the context of our current and expected macro-economic assessment, primarily focusing on debt and equity securities and other obligations of entities which are highly leveraged or are undergoing, are considered likely to undergo, or have undergone reorganization under the U.S. bankruptcy law or under extraordinary transactions, such as debt restructurings, reorganizations and liquidations outside of bankruptcy.

The following investment strategies may be used when managing client portfolios:

**Purchases:** We purchase securities in regards to which we have short term (less than a year) time horizons (“ST Purchases”) as well as in regards to which we have long term (a year or longer) time horizons (“LT Purchases”). We purchase securities because we believe the securities are undervalued and/or because we believe there is the potential that events specific to the issuer may occur which may favorably impact the market price of the security.

**Short Sales:** We sell short a security because we believe the security is overpriced and is likely to decline in price within a reasonable timeframe. Short sales involve the client borrowing shares of a security from someone (typically the client’s prime broker) who owns the security and promising to return the security in the future. We then sell the borrowed securities. On a future date, we buy the same security and return the security to the original owner (typically the client’s prime broker). In evaluating short positions, we consider securities that, in our view, exhibit, among other things, deteriorating fundamentals, poor balance sheets and/or questionable accounting practices, which have yet to be recognized in valuations. We also may sell a security short for macro reasons.

**Options:** From time to time as deemed appropriate, and in accordance with the investment mandate for each client, we may also use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset. The two types of options are calls and puts:

A call gives us the right to buy an asset at a certain price within a specific period of time. We may buy a call if we have determined that the price of the stock will increase substantially before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. We may buy a put if we have determined that the price of the stock will fall before the option expires. We may buy puts in an attempt to hedge the risk in our long positions.

We may use options to speculate on the possibility of a sharp price swing. We may also use options to “hedge” a purchase of the underlying security.

We may use “covered calls”, in which we sell an option on a security our clients own. In this strategy, the clients receive a fee for making the option available, and the person purchasing the option has the right to buy the security from the clients at an agreed-upon price.

These methods, strategies and investments involve risk of loss to clients and clients must be prepared to bear the loss of their entire investment.

The material risks related to our investment strategy are as follows:

***Distressed Situation Risk.*** Investment in distressed situations exposes the client to significant risks, including: the difficulty in obtaining information as to the issuer’s true condition, lender liability and bankruptcy; litigation risk and liquidity risk.

***Interest Rate Risks.*** Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.

***Purchases Strategy Risk:*** A risk in a Purchases strategy is that the security may not increase in price within the expected timeframe or may go down in price for reasons specific to the issuer, for macro reasons or for unknown reasons. An additional risk of ST Purchases is that the expected increase in market price of the security may not occur in the expected timeframe. An additional risk of LT Purchases is that, by holding the security for an extended period of time, we may not take advantages of short-term gains that could be profitable to a client, and if predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

***Short Selling Risk:*** One risk in selling short is that losses are theoretically unlimited; we are obligated to repurchase the security no matter how much the price has climbed. In addition, even if we are correct in determining that the price of a security will decline, we run the risk of incorrectly determining when the decline will take place. The selling short of a dividend-paying stock or an interest-paying bond obligates the seller to incur the cost of any dividends or interest which the issuer pays in respect of the security for however long the security is borrowed.

***Options Risk:*** A risk of options is that they expire on a particular date and may expire worthless. Option trading may involve a generally high level of risk, and such risk may vary depending on the strategy employed.

***Risks of Fundamental Analysis:*** Fundamental analysis does not attempt to anticipate short term market movements. This presents an inherent potential risk in the fundamental



analysis approach, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the particular security. Another potential risk is that our fundamental analysis may prove incorrect. We attempt to apply fundamental analysis within the context of our short term and long term macro view, but we may not be successful in our analysis or our decision-making.

***Risks for All Forms of Securities Analysis:*** Our securities analysis method relies on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that the analysis may be compromised by inaccurate or misleading information or intentional misrepresentation or fraud.

***Risks in General:*** Securities investments are not guaranteed and clients may lose money on investments. Clients or prospective clients should carefully review the relevant offering memorandum for a detailed explanation of many of the risks associated with investment.

The material risks associated with the securities we generally recommend are as follows:

***Fixed-Income and Debt Securities.*** Investment in fixed-income and debt securities such as bonds, notes and loans, subject a client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner or to the negative perceptions of the issuer's ability to make such payments. Investments in high yield and distressed debt securities are also subject to the risk that the securities may fluctuate more in price and may be less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, are more likely to encounter financial difficulties and may be more vulnerable to adverse changes in the economy. The value of fixed-income and debt securities fluctuates in response to issuer, political, market, and economic developments, among other factors.

***Distressed Securities.*** Investments in unrated or low grade debt securities of distressed companies are subject to greater risk of loss of principal and interest than higher-rated debt securities. Also, securities of distressed companies are generally more likely to become worthless than the securities of more financially stable companies.

***Derivatives.*** Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or

losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or by us. Further, transactions in derivative instruments are not undertaken on recognized exchanges, and will expose the client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

***Equity Securities.*** The value of equity securities fluctuates in response to issuer, political, market, and economic developments, among other factors. Fluctuations can be dramatic over the short term as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

***All Securities.*** Some securities do not trade regularly or the trading is less liquid or with low liquidity or with no liquidity, depending on the time period considered. Such liquidity factors impact the market trading levels of securities.

## **Item 9. Disciplinary Information**

This item is not applicable.

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

Scott's Cove GP LLC, our affiliate, is related to us through common ownership and control. Phillip Schaefer, Philip Acinapuro and Stephen Levitan are owners and members of Scott's Cove GP LLC.

We have and may in the future enter into agreements, or "side letters," with certain prospective or existing clients and/or investors in the Scott's Cove Funds whereby such clients and/or investors may be subject to terms and conditions that are more advantageous than those set forth in the offering materials for such client account. For example, such terms and conditions may provide for special rights to make future investments in a Scott's Cove Fund, other investment vehicles or managed accounts; rights to receive reports on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions); "Key Man" event provisions; "Most Favored Nation" status and such other rights as may be negotiated by such client and/or investor. The modifications are solely at our discretion and may, among other things, be based on the size of the

investment, an agreement by an investor to maintain such investment for a significant period of time, or other similar commitment by an investor.

**Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

We have adopted a Code of Ethics (the “Code of Ethics”) which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. The Code of Ethics includes policies and procedures governing personal trading by our access persons. The Code of Ethics provides for oversight, enforcement and recordkeeping. A copy of the Code of Ethics is available to our advisory clients and prospective clients, including investors and prospective investors in one or more of the Scott’s Cove Funds, upon request to the Chief Compliance Officer, at our principal office address.

In the course of our investment management and other activities (e.g., board or creditor committee service), we may come into possession of confidential or material nonpublic information about issuers, including issuers in which we or our related persons have invested or seek to invest on behalf of clients. We are prohibited from improperly disclosing or using such information for our own benefit or for the benefit of any other person, regardless of whether such other person is a client. We maintain and enforce written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that we are meeting our obligations to clients and remain in compliance with applicable law. In certain circumstances, we may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but we will be prohibited from communicating such information to the client or using such information for the client’s benefit. In such circumstances, we will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that we possess such information), or not using such information for the client’s benefit, as a result of following our policies and procedures designed to provide reasonable assurances that we are complying with applicable law.

As disclosed at Item 5 of this brochure, certain of our executive officers and/or other employees have invested or may invest a portion of their personal net worth in one or more of the Scott’s Cove Funds.

It is our expressed policy that no person employed by us may usurp an investment opportunity which may be appropriate for one or more clients without first presenting the opportunity to the Investment Team (as defined in Item 13).

As these situations represent a conflict of interest, we have established the following restrictions in order to ensure our fiduciary responsibilities:

- No officer or employee may prefer his or her own interest to that of an advisory client;

- We maintain a list of all securities holdings for the firm and anyone associated with the advisory practice with access to advisory recommendations. Our principals and employees are generally prohibited from trading in the securities on this list;
- All of our principals and employees are required to pre-clear all personal securities transactions with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of our clients;
- Our principals and employees are required to provide to the Chief Compliance Officer initial and annual holdings reports, as well as quarterly transaction reports. Principals and employees are also required to provide broker confirmations of each transaction in which they engage and quarterly certification of such transactions. Such transactions will be reviewed by the Chief Compliance Officer and compared against client transactions;
- All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices; and
- Any individual not in observance of the above may be subject to disciplinary action up to and including termination.

The Advisers Act makes it unlawful for any investment adviser, directly or indirectly, acting as principal for its own account, to knowingly sell any security to, or purchase any security from, a client without disclosing to the client in writing the capacity in which the adviser is acting and obtaining the client's consent to the transaction. This rule may apply to certain transactions involving accounts in which investment advisers have interests, such as private fund investments by the firm's owners, principals, or employees. The SEC has indicated that when an investment adviser and/or its controlling persons own more than 25% of a fund's outstanding securities, it would be effectively treated as a principal transaction if such an account were to engage in a trade with another client account or fund.

We have adopted specific policies and procedures for monitoring the level of proprietary ownership in each fund we manage and for obtaining the requisite consent before engaging in a transaction that would be considered a principal transaction under applicable SEC interpretations.

To the extent that we or any related person or any of our employees own securities that we or our related person also recommend to clients, such client's proxies will be voted according to predetermined guidelines rather than subject to our discretion.

## **Item 12. Brokerage Practices**

We have the authority to select the broker or dealer through which to place trades on behalf of the clients through each client's organizational documents and agreements and through an agreement with a party related to the separately-managed account. When executing transactions, we endeavor to achieve best execution of client trades. We consider a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors may include the broker's ability to provide professional services, competitive commission rates, reputation, financial strength and stability, efficiency of execution, and research and other services

Consistent with obtaining best execution for clients, we may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to our firm. Such services may include:

- Analyses or reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts;
- Reports concerning interrelated political and economic factors;
- Access to research analysts;
- Research-related seminars or conferences;
- Corporate governance research.

This is known as a "soft dollar" relationship. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by any client and at our sole discretion. We do not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. Because our clients are generally managed in parallel with each other, it is unlikely, but possible that, from time to time, we may use particular research to make an investment decision for one or more client but not for all of the clients. As a result, a client may pay brokerage commissions that are used, in part, to obtain research services that are not used specifically to benefit that client. Brokers selected by us may be paid commissions for effecting transactions that exceed the amounts other brokers would have charged for effecting these transactions if we determine in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by the broker, viewed either in terms of a particular transaction or our overall duty of best execution.

During our last fiscal year, as a result of client brokerage commissions (or markups or markdowns), we and/or our related persons obtained access to research reports and attendance at various seminars and/or conferences.

Investors should understand that when we use client brokerage commission dollars, markups, or markdowns to obtain research or other products or services, as described above, we receive a benefit because we do not have to produce or pay for this research, product, or service. Therefore, we may have an incentive to select or recommend a broker based on our interest in receiving the research or other products or services, rather than on the clients' interest in receiving most favorable execution. Since this incentive results in a conflict of interest for us, we have adopted the following policies and procedures to mitigate and monitor the conflict:

- For equity trades that are not traded on a net basis, we use client commissions to pay for eligible services only, as defined in Section 28(e) and subsequent regulatory and industry guidance;
- We conduct periodic analysis of the volume of equity transactions with each approved broker along with the competitiveness of the commissions paid to each such broker; and
- We periodically evaluate the usefulness of services received from brokers in relation to the amount of commissions directed to each broker.

From time to time, we may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to one of the Scott's Cove Funds or recommend the Scott's Cove Funds as an investment to clients. We may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if we determine that it is otherwise consistent with seeking best execution. In no event will we select a broker-dealer as a means of remuneration for recommending us or any product managed by us (or an affiliate) or affording us with the opportunity to participate in capital introduction programs.

We typically aggregate client trades when doing so is advantageous to clients. Usually, we will batch client transactions to receive volume discounts and to potentially obtain better and more uniform pricing across client accounts. If we determine that aggregation of trades in a certain situation will be beneficial to clients, transactions will be averaged as to price and will be allocated among clients. All trades are allocated to clients in proportion to the relative equity value of each client's portfolio as periodically updated. Any exceptions from the pro-rata allocation procedure will be carefully explained and documented. Such exceptions may occur due to varying cash availability across accounts, divergent investment objectives and existing concentrations, tax considerations, investment restrictions, performance relative to the applicable benchmark, performance relative to other accounts in the same strategy, and desire to avoid "odd lots," (an amount of a security that is less than the normal unit of trading for that particular security).

### **Item 13. Review of Accounts**

Our Investment Team is comprised of Phillip Schaeffer (Senior Portfolio Manager), Philip Acinapuro (Portfolio Manager) and Stephen Levitan (Portfolio Manager).

Our Investment Team continuously monitors the underlying securities in client accounts and reviews these positions on a daily basis for all clients. Account positions will be reviewed in the overall context of the clients' investment objectives and guidelines as well as geopolitical and macroeconomic events.

We send to Scott's Cove Fund investors (or the contact person with whom we regularly communicate within the respective investor's organization) monthly performance reports including a commentary on the month and certain summary portfolio details. In addition, Scott's Cove Fund investors are sent a separate monthly report from the administrator of the respective fund which provides account balance details and related information. We also send to Scott's Cove Fund investors (or the contact person with whom we regularly communicate within the respective investor's organization) a quarterly letter including a commentary on the quarter, portfolio information including summary changes to the portfolio during the quarter, performance information and other information we believe is important to communicate. We also provide additional information throughout the year on a regular and recurring or on a one-off basis at the request of clients. Furthermore, in the past we have sent e-mail communications to clients to inform them of the status of the portfolio and near-term investing strategy during times of extreme market volatility, and, we may or may not send similar communications in the future. We send to the separately-managed account information similar to that described above, and we may provide information specific to the particular account.

Each of the Scott's Cove Fund's investors will receive, as soon as practicable after the end of each taxable year (or as otherwise required by law), annual reports containing financial statements audited by the respective Scott's Cove Fund's independent auditors as well as such tax information as is necessary to complete U.S. federal and state income tax or information returns, along with any other tax information required by law.

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

We receive certain research or other products or services from broker-dealers through "soft-dollar" arrangements. These "soft-dollar" arrangements create an incentive for us to select or recommend broker-dealers based on our interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by us on behalf of our clients. Please see Item 12 for further information on our "soft-dollar" practices, including our procedures for addressing conflicts of interest that arise from such practices.

Although we currently have no placement or solicitation agreements in force, we have entered in the past and may enter in the future into agreements with unaffiliated FINRA-registered broker dealers to serve as non-exclusive placement agents in the offer and sales

of interests in the Scott's Cove Funds. We may also pay referral fees to unaffiliated third-party entities and/or persons for referring advisory clients to our firm. The fees payable to appointed placement agents and/or solicitors may include a monthly retainer fee and an annual percentage payment of the total fee collected based on the net assets invested in the Scott's Cove Funds by investors introduced to the Scott's Cove Funds by the placement agents or clients introduced to SCM by solicitors.

Payment of referral fees for prospective client referrals and of placement fees for prospective investor referrals creates a potential conflict of interest to the extent that such referrals are not unbiased and the solicitor/placement agent is, at least partially, motivated by financial gain. Therefore, such referrals may be made even if the advisory services or Scott's Cove Fund investments are not suitable for and/or are not in the best interest of a particular client/investor. As these situations represent a conflict of interest, we have established the following restrictions in order to ensure fulfillment of its fiduciary responsibilities:

1. All such referral fees are fully disclosed and paid in accordance with the requirements of Rule 206(4)-3 under the Advisers Act, and any corresponding state securities law requirements, as applicable;
2. Any fees for prospective client referrals will be paid solely from the total fee, and will not result in any additional charge to the client; and
3. If the client is introduced to us by an unaffiliated solicitor, the solicitor, at the time of the solicitation, will disclose the nature of his/her/its solicitor relationship and provide each prospective client with a copy of this Brochure, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between our firm and the solicitor, including the compensation to be received by the solicitor from us.

#### **Item 15. Custody**

Custody is defined as any legal or actual ability to access client funds or securities. We seek to have each of the Scott's Cove Funds audited on an annual basis by an independent public accountant that is both registered with and subject to regular inspection by the Public Company Accounting Oversight Board (PCAOB). It is our policy to seek to send these audited financials to each client, as appropriate, within 120 days of the applicable fiscal year end.

#### **Item 16. Investment Discretion**

We are granted the discretionary authority in the relevant organizational documents and/or advisory agreements to determine which securities and the amounts of securities that are bought or sold for clients.



Prior to assuming full discretion in managing a client's assets, we enter into an investment management agreement or other agreement that sets forth the scope of our discretion.

Unless otherwise instructed or directed by a discretionary client, we have the authority to determine the securities and the amount of such securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any investment guidelines). Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in security positions. An allocation statement is maintained and periodically updated which describes the allocation of security trades to client accounts for each trade/order submitted. Allocations are generally made based on the relative equity of the client account. We may also consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) client risk profiles; (iii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iv) nature and liquidity of the security to be allocated; (v) size of available position; (vi) current market conditions; and (vii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is our policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on the equity value of the assets of each participating account relative to the equity value of all participating accounts), these factors may result in securities allocated to client accounts in varying amounts. If it appears that a trade error has occurred, we will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, our error correction procedure is to ensure that clients are treated fairly. We have discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. If an error is detected before settlement, it is corrected as soon as possible. In the event that a client account incurs a trade error as a result of our gross negligence, willful misfeasance, or bad faith, trade errors will be corrected by us as soon as practicable, in a manner such that the client incurs no loss. Trade errors that result other than by breach of that standard of care are borne by the client account.

#### **Item 17. Voting Client Securities**

Clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with the client as requested. (With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies). Since the Scott's Cove Funds are in a master/feeder structure, proxies for securities owned directly or indirectly by the Scott's Cove Funds are voted in bulk, and clients cannot instruct us as to how to vote a particular proxy. Proxies for securities owned by other clients are handled consistent with the applicable agreement with that client.

When we have discretion to vote proxies for clients, we will vote those proxies in the best

interests of the clients and in accordance with established policies and procedures. Consideration is given to both the short and long-term implications of the proposal to be voted on when considering the optimal vote. We will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written request for information on how we voted proxies. If we have a conflict of interest in voting a particular action, we will notify clients of the conflict and retain an independent third-party to cast a vote.

Our clients may obtain a copy of our complete proxy voting policies and procedures or an explanation of how we voted proxies by contacting the Chief Compliance Officer at our principal office address.

**Item 18. Financial Information**

This item is not applicable.

**Part 2B of Form ADV: *Brochure Supplement***

Phillip Scott Schaeffer  
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02/28/2017

**This brochure supplement provides information about Phillip Schaeffer that supplements the Scott's Cove Management LLC brochure (the "Brochure"). You should have received a copy of the Brochure. Please contact Phillip Schaeffer, Scott's Cove Management LLC's Chief Compliance Officer (the "Chief Compliance Officer"), if you did not receive our Brochure or if you have any questions about the contents of this supplement.**

**Item 2. Educational Background and Business Experience**

Phillip Scott Schaeffer

Year of Birth: 1955

Education:

Mr. Schaeffer attended St. Lawrence University from 1973 to 1974 and graduated from the University of Virginia in 1977 with a B.S. in Commerce and from Harvard Business School in 1981 with an MBA.

Business Background:

Managing Member, Chief Compliance Officer, Senior Portfolio Manager, Scott's Cove Management LLC from 03/2011 to present

Managing Director, Katonah Scott's Cove Management LLC from 01/2008 to 02/2011

Managing Member, Scott's Cove Capital Management LLC from 04/1999 to 12/2007

**Item 3. Disciplinary Information**

Mr. Schaeffer does not have any history of disciplinary events.

**Item 4. Other Business Activities**

Mr. Schaeffer is not engaged in any outside business activities.

**Item 5. Additional Compensation**

Mr. Schaeffer does not receive any additional compensation from third parties for providing investment advice to its clients.

**Item 6. Supervision**

The Investment Committee is charged with the responsibility of vetting, approving, and documenting investment decisions. The Investment Committee's members are Mr. Schaeffer, Philip Acinapuro and Stephen Levitan. Investment decisions are made by consensus of the Investment Committee members; however, in the event that one or more members of the Committee dissents, the vote of Phillip Schaeffer is determinative, and, as such, is not subject to supervision and has supervisory authority over the other Investment Committee members. The activities of all supervised persons, including Mr. Schaeffer, are subject to our compliance policies and procedures, which are administered by the Chief Compliance Officer.

**Part 2B of Form ADV: *Brochure Supplement***

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02/28/2017

**This brochure supplement provides information about Philip Acinapuro that supplements the Scott's Cove Management LLC brochure (the "Brochure"). You should have received a copy of the Brochure. Please contact Phillip Schaeffer, Scott's Cove Management LLC's Chief Compliance Officer (the "Chief Compliance Officer"), if you did not receive our Brochure or if you have any questions about the contents of this supplement.**

**Item 2. Educational Background and Business Experience**

Philip Richard Acinapuro

Year of Birth: 1960

Education:

Mr. Acinapuro graduated from Boston College in 1982 with a B.S. in Accounting and Computer Science and from New York University in 1986 with an MBA in Finance.

Professional Designations:

Mr. Acinapuro earned the Chartered Financial Analyst (CFA) designation in 1990. The CFA designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA charterholder, candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

Business Background:

Managing Member, Portfolio Manager, Scott's Cove Management LLC from 03/2011 to present

Portfolio Manager, Katonah Scott's Cove Management LLC from 01/2008 to 02/2011

Portfolio Manager, Scott's Cove Capital Management LLC from 06/2002 to 12/2007

**Item 3. Disciplinary Information**

Mr. Acinapuro does not have any history of disciplinary events.

**Item 4. Other Business Activities**

Mr. Acinapuro is not engaged in any outside business activities.

**Item 5. Additional Compensation**

Mr. Acinapuro does not receive any additional compensation from third parties for providing investment advice to its clients.

**Item 6.           Supervision**

The Investment Committee is charged with the responsibility of vetting, approving, and documenting investment decisions. The Investment Committee's members are Phillip Schaeffer, Mr. Acinapuro and Stephen Levitan. Investment decisions are made by consensus of the Investment Committee members; however, in the event that one or more members of the Committee dissents, the vote of Phillip Schaeffer is determinative, and, as such, Mr. Acinapuro is subject to Mr. Schaeffer's ultimate supervision with respect to investment decisions. The activities of all supervised persons, including Mr. Acinapuro, are subject to our compliance policies and procedures, which are administered by the Chief Compliance Officer.

**Part 2B of Form ADV: *Brochure Supplement***

Stephen Richard Levitan  
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02/28/2017

**This brochure supplement provides information about Stephen Levitan that supplements the Scott's Cove Management LLC brochure (the "Brochure"). You should have received a copy of the Brochure. Please contact Phillip Schaeffer, Scott's Cove Management LLC's Chief Compliance Officer (the "Chief Compliance Officer"), if you did not receive our Brochure or if you have any questions about the contents of this supplement.**



## **Item 2. Educational Background and Business Experience**

Stephen Richard Levitan

Year of Birth: 1956

Education:

Mr. Levitan graduated from Dartmouth College in 1977 with an AB in Mathematics and Economics and from Harvard Business School in 1981 with an MBA.

Professional Designations:

Mr. Levitan earned the Chartered Financial Analyst (CFA) designation in 1993. The CFA designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA charterholder, candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

Business Background:

Managing Member, Portfolio Manager, Scott's Cove Management LLC from 03/2011 to present

Portfolio Manager, Katonah Scott's Cove Management LLC from 03/2009 to 02/2011

Portfolio Manager, Hudson Bay Capital Management from 04/2008 to 10/2008

Managing Director, RBC Capital Markets Corp. from 11/2002 to 04/2008

Portfolio Manager, Commerzbank AG from 01/2001 to 11/2002

## **Item 3. Disciplinary Information**

Mr. Levitan does not have any history of disciplinary events.

## **Item 4. Other Business Activities**

Mr. Levitan is not engaged in any outside business activities.

**Item 5. Additional Compensation**

Mr. Levitan does not receive any additional compensation from third parties for providing investment advice to its clients.

**Item 6. Supervision**

The Investment Committee is charged with the responsibility of vetting, approving, and documenting investment decisions. The Investment Committee's members are Phillip Schaeffer, Philip Acinapuro and Mr. Levitan. Investment decisions are made by consensus of the Investment Committee members; however, in the event that one or more members of the Committee dissents, the vote of Phillip Schaeffer is determinative, and, as such, Mr. Levitan is subject to Mr. Schaeffer's ultimate supervision with respect to investment decisions. The activities of all supervised persons, including Mr. Levitan, are subject to our compliance policies and procedures, which are administered by the Chief Compliance Officer.