

F-Squared Alternative Investments, LLC

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Form ADV Part 2A Brochure

March 2014

This brochure provides information about the qualifications and business practices of F-Squared Institutional Advisors, LLC (hereinafter “F-Squared”). If you have any questions about the contents of this brochure, please contact us at 866-288-7657 or info@f2inv.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about F-Squared is available at www.adviserinfo.sec.gov.

Registration with the SEC does not imply that F-Squared or any person associated with F-Squared has achieved a certain level of skill or training.

Item 2: Summary of Material Changes

F-Squared's last annual Form ADV update was filed on March 28, 2013.

Since then, F-Squared has revised its brochure to clarify its two primary business lines:

- (i) F-Squared licenses index products to third party entities; and
- (ii) F-Squared provides advisory services through the implementation of its index products ("Advisory Services").

In addition, F-Squared has also removed references to information prior to 2011.

F-Squared has also clarified the nature of its management fee charged for Advisory Services, how fees are paid, how employees may be compensated for the sale of securities or other investment products, its brokerage practices and the extent to which it has custody of client assets.

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Item 4: Advisory Business

Description of our Firm

F-Squared Alternative Investments, LLC (hereinafter “F-Squared”) is an SEC registered investment management firm located in Wellesley, Massachusetts that commenced operations as an investment adviser in 2011. F-Squared is a wholly-owned subsidiary of F-Squared Investment Management, LLC.

Types of Services We Offer

F-Squared provides various index products (the “Index Provider Services”) and, separately, provides investment advisory services relating to those index products (the “Advisory Services”).

Index Provider Services

An affiliate of F-Squared, Active Index Solutions, LLC, has created and licensed a series of specialty indexes (the “AlphaSector Indexes”) covering a range of asset classes. The AlphaSector Indexes are quantitative models programmed to measure the price movements and the volatility of exchange-traded funds (“ETFs”) as criteria for component inclusion. There are 75 AlphaSector Indexes (including both standard and customized indexes). F-Squared sub-licenses the right to use the AlphaSector Indexes to unaffiliated third parties but has no discretion over the assets that are to be managed by the third-party manager pursuant to the Index.

Advisory Services

F-Squared provides investment advisory services on a discretionary basis to a pooled investment vehicle (the “Private Fund”) and separately managed accounts (the “SMAs”).

For its Advisory Services, F-Squared seeks to replicate one or more of the AlphaSector Indexes (such replication being a “Strategy”). Although F-Squared generally does not tailor its Advisory Services to the individual needs of a client, F-Squared may offer custom advisory services to institutional investors upon request. A potential Advisory Services client may request a Strategy based on an existing Index that offers a greater or lesser allocation to a particular asset class, for example. F-Squared generally does not allow clients to impose restrictions on investing in certain securities or types of securities.

Wrap Fee Programs

F-Squared does not currently participate in any wrap fee programs.

Assets under Management

As of December 31, 2013, the total assets under management¹ for F-Squared are as follows:

<i>Discretionary:</i>	\$ 25,545,000
<i>Non-Discretionary:</i>	<u>0</u>
<i>Total:</i>	\$ 25,545,000

Item 5: Fees and Compensation

Fee Schedule

Index Provider Services

In connection with the licensing of its AlphaSector Indexes, F-Squared is entitled to receive a fee based on the market value of the assets managed by the third party using the AlphaSector Indexes. F-Squared generally receives this fee on a monthly or quarterly basis, paid in arrears. The rates for such fee generally range from 10 to 60 basis points. Such fees may be negotiable. Third party unaffiliated entities that license the use of the AlphaSector Indexes may charge fees and expenses with which F-Squared has no involvement. Such entities may employ fee and expense structures, as well as timing, that differ from F-Squared's.

Advisory Services

SMA's

With respect to the SMA's, F-Squared receives a management fee based on the market value of the total assets invested by the client subject to the Strategy. F-Squared will receive the management fee on a quarterly basis, paid in advance. Such fees will vary and are generally negotiable. F-Squared is entitled to performance-based compensation from the SMA in the form of an incentive allocation, which is compensation that is based on a share of capital gains or capital appreciation of the SMA's assets.

Private Fund

With respect to the Private Fund, F-Squared receives a quarterly management fee, payable in advance, calculated at an annual rate of 1.5% of the total net assets of the Private Fund (the "Private Fund Management Fee"). The Private Fund Management Fee is adjusted to reflect contributions and withdrawals made during a quarter. The Private Fund Management Fee is negotiable.

An affiliate of F-Squared is also entitled to performance-based compensation from the Private Fund in the form of an incentive allocation, which is compensation that is based on a share of capital gains or capital appreciation of the Private Fund's assets. This compensation is generally equal to 20% and is subject to a non-cumulative hurdle rate of 8%.

¹ In addition, as of December 31, 2013, unaffiliated third parties maintained \$2,380,479,340 in assets subject to an Index as part of F-Squared's Index Provider Services.

Payment of Fees

Both Index Provider Services and Advisory Services clients may choose to be billed for the services provided or have their fees automatically deducted from the assets subject to the Strategy by the client's custodian. Clients will be charged (whether by billing or deduction method) on either a monthly or quarterly basis.

Other Types of Fees or Expenses

In addition to the management fees and performance-based compensation described above, Index Provider Services and Advisory Services clients may also incur fees and expenses charged by custodians and imposed by financial intermediaries, including, but not limited to any transaction charges imposed by a broker-dealer with which an independent investment manager or F-Squared effects transactions for the client's account(s). See Item 12 which describes F-Squared's brokerage practices and the process for reviewing and selecting a broker-dealer for Advisory Service clients' transactions in applicable situations.

Prepayment of Fees

Where an Advisory Services client is required to pay F-Squared's fees in advance, F-Squared will refund a prepaid fee in the event an advisory contract is terminated or a withdrawal is made from an account before the end of a billing period.

Compensation for Sales of Securities or other Investment Products

F-Squared employees that sell AlphaSector Indexes to Index Provider Service clients and/or Strategies to Advisory Services clients receive additional compensation from F-Squared. F-Squared pays this additional compensation from the management fee received from the client; it is not an additional charge that the client bears. This compensation practice could present a conflict of interest in that it gives the employee an incentive to recommend the Index and/or the Strategy based on the compensation received, rather than on a client's needs. It is important to note, however, that the employees do not sell other products to the clients. Further, clients do not have the option to purchase the AlphaSector Indexes and Strategies from other agents unaffiliated with F-Squared.

Item 6: Performance-Based Fees and Side-By-Side Management

As discussed above in item 5, an affiliate of F-Squared, a direct wholly owned subsidiary, receives a performance-based fees for its work as general partner to the Private Fund and manager of a SMA, and F-Squared receives a non-performance-based fee from the Private Fund and SMA. In addition, F-Squared serves as an investment adviser to a mutual fund account (an Index Provider Services client) for which it does not receive a performance-based fee. Such a side-by-side arrangement arguably provides an incentive to F-Squared to favor the accounts with the performance-based fees. That said, F-Squared believes that this conflict is a theoretical one as it only has investment discretion with respect to the private fund and SMA, both of which trade the same publicly-traded ETFs in the same manner and without the discretion to invest differently. In addition, the Private Fund and SMA have different investment objectives and strategies than the mutual fund account and are not vying for the same set of investments.

Item 7: Types of Clients

Index Provider Services

F-Squared may provide Index Provider Services to third party unaffiliated entities, including investment advisers and mutual funds. F-Squared may have requirements for entering into an index provider relationship, including limiting the provision of Index Provider Services related to Indexes using leverage or shorting to Qualified Clients, as provided in Rule 205-3 of the Investment Advisers Act of 1940.

Advisory Services

F-Squared provides Advisory Services to a number of clients including private funds, pensions, endowments, trusts, other business entities, and individuals.

There are minimums for accounts, varying by account type.

Private Fund

The applicable minimum capital contribution amounts for the Private Fund are set forth in the Private Fund's Confidential Private Offering Memorandum.

Advisory Services - General

F-Squared may waive any and all minimum account requirements in its sole discretion.

Item 8: Method of Analysis, Investment Strategies and Risk of Loss

Index Provider Services – Description of Index or Portfolio Replication Construction

The investment rationale of the AlphaSector Indexes is based on seeking to avoid market declines. The index algorithms generally seek to control risk in down markets and participate in up markets. As stated previously, the Indexes are quantitative models programmed to utilize price movements and volatility of ETFs as a criteria for component inclusion. Index components include up to 9 ETFs reflecting the primary sectors of the U.S. economy. In periods of extreme distress, the AlphaSector Indexes may allow partial or complete allocations to an alternative ETF that reflects either cash equivalents, short-term Treasuries, or other short-term fixed income securities (an "Alternative ETF"). There are currently 75 standard and/or customized AlphaSector Indexes.

Methods of Analysis for Advisory Services

The AlphaSector Strategies seek to track or replicate one or more of the AlphaSector Indexes in an effort to modestly outperform its assigned benchmark in growth markets and significantly outperform its benchmark during bear markets. The quantitative models underlying the AlphaSector Strategies are based on three primary components:

- Historical Price Return
- Volatility
- Changing Levels of Volatility

The AlphaSector Strategies cover several major asset classes: U.S. Equity, International, Fixed Income, and Real Assets (Gold and Real Estate), plus asset allocation strategies that combine various combinations of these core asset classes.

Investment Strategies for Advisory Services

Long/Short Strategy

The investment objective of the Long/Short Strategy employs a similar systematic approach to construct a portfolio of ETFs with varying degrees of exposure. The portfolios are rebalanced to weight toward those ETFs that are priced at the largest discount for long positions and those that are priced at the largest premium for short positions, as determined by the applicable AlphaSector Index. The objective is to achieve capital appreciation through both long and short investments in ETFs. The applicable AlphaSector Index identifies industry sectors that are predicted to have positive or negative price movement, and the Strategy portfolio will be positioned with long and short sector exposures accordingly. The portfolio also uses dynamic leverage to seek to increase long exposure when the AlphaSector Index predicts that a majority of the sectors will have positive performance.

The portfolio also utilizes a proprietary methodology which seeks to remove all short exposure in the Strategy portfolio when the market is predicted to rebound.

Long Only Strategy

F-Squared also offers long only suites of products through the AlphaSector Strategies.

The Long Only Strategy seeks to provide superior downside risk management, especially in weak markets. The long-only strategy does not use derivatives, leverage, or shorting.

Advisory Services –Portfolio Construction and Design

AlphaSector Strategy portfolios are either reviewed monthly (“Rotation”) or weekly (“Premium”) for reconstitution and rebalancing.

The following is a summary of the core AlphaSector Strategies. The AlphaSector U.S. Equity Strategies (AlphaSector Rotation Strategy and AlphaSector Premium Strategy) seek to replicate the applicable index ETFs representing the 9 sectors of the U.S. economy or short-term Treasuries. The implementation of the strategy is most often through ETFs, which are low cost, highly liquid index-linked vehicles tracking the performance of each respective sector. The ETFs most often used are published by industry leading ETF providers representing the 9 sectors of the U.S. economy and an Alternative ETF. As such, there are a maximum number of 9 securities in the portfolio at any one time, resulting in operational ease and lower transaction costs.

The Private Fund utilizes the AlphaSector U.S. Equity Strategy as its foundation.

AlphaSector Hedge Portfolio Strategy represents an investment “overlay” applied to the live investment signals of the AlphaSector U.S. Equity Index. The overlay represents the application of leverage and short exposure and is generated through the use of a rules-based, quantitative model.

The AlphaSector Global Strategy is a blend of two index strategies, the AlphaSector U.S. Equity Strategy and the AlphaSector International Strategy. The AlphaSector International Strategy includes 5 ETFs reflecting the key world economic regions outside the U.S. as well as an Alternative ETF.

Alpha Sector INFinity Strategy is a diversified multi-sector, inflation neutral fixed income offering which includes ETFs tracking 6 bond sectors and 1 Alternative ETF.

AlphaSector Allocator Strategy is a diversified portfolio of the U.S. Equity, International and Fixed Income Strategies adding in ETFs tracking “alternative” asset classes such as gold and REITs.

Default “position” within each AlphaSector Index is typically to have all available ETFs (other than an Alternative ETF) invested and equally weighted within that index or sleeve at the time of rebalancing. Decisions to remove a sector or asset class from the portfolio at any time are based on a probability-based determination that that sector or asset class is viewed as likely to lose money on a forward-looking basis.

Risk of Loss

All investments in securities include a risk of loss that clients should be prepared to bear.

The principal risks of the AlphaSector Indexes and Strategies are as follows:

- **Market Risk:** The risk that the value of the securities in which the Strategies invest may drop in reaction to tangible and intangible events and conditions, independent of a security’s particular underlying circumstances. For example, political, economic, and social conditions may cause a change in the value of the securities. Price changes may be temporary or may last for extended periods.
- **Equity Securities Risk:** The risk that events or circumstances at a particular industry, or a particular company within an industry will impact the value of the stocks and ETFs held by the Strategy and thus, the value of your investment over short or extended periods.
- **Interest-Rate Risk:** The risk that fluctuations in interest rates may cause investment prices to fluctuate and impact the value of fixed income securities or ETFs held by the Strategy. For example, when interest rates rise, yields on existing bonds become less attractive causing their market values to decline.
- **Credit Risk:** The risk that a fixed income security issuer will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer’s ability to make such payments will cause the price of that fixed income security to decline.
- **ETF Risk:** The risk that the value of an ETF in which a Strategy invests will be more volatile than the underlying portfolio of securities the ETF is designed to track, or that the costs to the fund of owning shares of the ETF will exceed those the fund would incur by investing in such securities directly.
- **Sector Concentration Risk:** The risk that events negatively affecting an industry or market sector in which the Strategy invests will cause the overall value of the Strategy to decline. To the extent

that some of the Strategies invest significant portions of their portfolio in ETFs representing particular markets or sectors (such as Energy, Healthcare, Real Estate, etc.) or in an ETF representing U.S. Treasuries, the Strategy is more vulnerable to conditions that negatively affect such sectors as compared to an investment strategy that is not significantly invested in such sectors.

- **Turnover Risk:** The risk that frequent trading will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains that can negatively impact an investor's overall investment as compared to investments in strategies with low turnover.
- **U.S. Government Securities Risk:** The risk that U.S. Government securities in a Strategy will be subject to price fluctuations, or that an agency or instrumentality will default on an obligation not backed by the full faith and credit of the United States.
- **Quantitative Risk:** The risk that the effectiveness of the quantitative model used for the strategy can dissipate over time as similar Strategies are adopted and as the market becomes more efficiently priced.
- **Programming / Modeling Risk:** F-Squared's research and modeling process is extremely complex and the results of that process must then be translated into computer code. Although F-Squared seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of such errors could adversely affect a client's portfolio and likely would not constitute a trade error under F-Squared's policies.
- **System Risk:** F-Squared relies extensively on computer programs and systems in its proprietary modeling to evaluate securities, to monitor its portfolio, and to generate reports that are critical to oversight of its activities. In addition, certain systems are operated by third parties, including counterparties and service providers. F-Squared may not always be in the best position to verify the risks or reliability of such third-party systems. These programs or systems, whether operated by a third party or not, may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by computer "worms," viruses and power failures. Any such defect or failure could have a material adverse effect on F-Squared's activities. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect F-Squared's ability to monitor its investment portfolios and its risks.
- **Operational Risk:** F-Squared has developed systems and procedures to control operational risk. Operational risks arising from mistakes made in the trading confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruption in F-Squared's operations may cause F-Squared to suffer financial loss; the disruption of its business; liability to Clients or third parties; regulatory intervention; or reputational damage. F-Squared relies heavily on its financial, accounting and other data processing systems.

- **Swaps and Derivatives Risk:** F-Squared may make use of swaps and other forms of derivative contracts. In general, a derivative contract (including options) typically involves leverage, i.e., it provides exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. Consequently, an adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract. Depending on the Strategy, many of the derivative contracts used by F-Squared may be privately negotiated in the over-the-counter market. These contracts also involve exposure to credit risk, since contract performance depends in part on the financial condition of the counterparty or the counterparty's guarantor. These transactions may also involve significant transaction costs and may expose a portfolio to counterparty risk.
- **Short Selling Risk:** A short sale involves the sale of a security that a portfolio does not own in the expectation of purchasing the same security (or a security exchangeable therefore) at a later date at a lower price. To make delivery to the buyer, the portfolio must borrow the security, and the portfolio is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the portfolio. In some cases, the lender may rescind the loan of securities and cause the borrower to repurchase shares at inflated prices, resulting in a loss. When a portfolio makes a short sale in the United States, it must leave the proceeds with the broker and it must also deposit with the broker an amount of cash or marketable securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are affected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. The extent to which a portfolio will engage in short sales depends upon the particular Strategy and perception of market direction. In addition, global regulatory prohibitions on short sales may impair F-Squared's ability to implement its investment process. Bans may add additional constraints to a Strategy, which may increase transaction costs as well as the time required to monitor compliance with the restrictions.
- **Leverage Risk:** Certain Strategies utilize varying amounts of leverage, which involves the borrowing of funds and may also be embedded in financial instruments, including short sales, over-the-counter derivatives, options, swaps, and forwards, which enable investors to gain exposure to assets whose value exceeds the amount of capital necessary to obtain such exposure. The use of leverage allows F-Squared to increase its exposure to assets, such that total assets may be greater than capital invested. However, the use of leverage may also magnify the volatility – or the likelihood of short-term changes in value – of any portfolio. The effect of the use of leverage in a portfolio may result in losses to the portfolio that exceed losses to the portfolio if such portfolio did not utilize leverage.

Item 9: Disciplinary Information

This Item is not applicable.

Item 10: Other Financial Industry Activities and Affiliations

Broker-Dealer Affiliations

Neither F-Squared nor any of its management persons is registered or has an application pending to register as a broker-dealer.

Futures/Commodities Affiliations

Neither F-Squared nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Investment Company Affiliations

F-Squared serves as a sub-adviser to several mutual funds managed by an unaffiliated investment adviser. For its services, F-Squared receives fee based on a percentage of the applicable fund's net assets. F-Squared and its related persons do not solicit their clients to invest in these mutual funds.

Investment Adviser Affiliations

F-Squared is a subsidiary of F-Squared Investment Management, LLC. Other registered investment adviser subsidiaries of F-Squared Investment Management, LLC include F-Squared Investments, Inc., F-Squared Retirement Solutions, LLC, F-Squared Alternative Investments, LLC, and F-Squared Capital, LLC. F-Squared does not recommend or select any of the above affiliates, or any other investment adviser, for its clients.

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

F-Squared has adopted a Code of Ethics (the "Code") which sets forth high ethical standards of business conduct for our employees and governs a number of potential conflicts of interest that we may encounter when providing investment advisory services. The Code is based on the principle that F-Squared owes a fiduciary duty to the investors for which we serve as an adviser. In adherence with the Code, F-Squared and its employees must avoid activities, interests and relationships that might interfere or appear to interfere with making decisions in the best interests of our clients. The Code seeks to place the interests of F-Squared clients over the interests of the firm and any of its employees, and to comply with the applicable Federal securities laws and other applicable law.

F-Squared distributes the Code to each employee at the time of hire and annually thereafter. Each employee is required to sign the Code acknowledging that they have read, understand, and will abide by the Code and its requirements. All employees receive training and are monitored for compliance with the Code.

F-Squared will provide a copy of our Code to any client or prospective client upon request.

Our Code includes, but is not limited to the following:

- Requirements on fiduciary duty

- Prohibitions on the acceptance of gifts and entertainment that exceed our policy standards
- Prohibitions on insider trading and communication of material non-public information
- Requirements on the handling of confidential information
- Requirements for pre-clearance of employee transactions
- Identification and pre-clearance requirements on accounts where employees have beneficial interest
- Requirements for reporting applicable personal securities transactions

Personal Securities Transactions Requirements

All Access Persons (any employee of F-Squared who has access to nonpublic information concerning any clients' securities transactions or account holdings; is involved in making securities recommendations to clients; has access to securities recommendations delivered to clients; or is a director or executive officer) must not engage, and must not permit any other person or entity to engage, in any purchase or sale of a Covered Security (all securities except Exempt Securities set forth below) in which such Access Person has, or by reason of the transaction will acquire any Beneficial Ownership (direct or indirect pecuniary interest), unless (i) the transaction is an Exempt Security (as set forth below) or (ii) he/she has have complied with the provisions set forth below.

Pre-clearance

Access Persons must seek to obtain pre-clearance trading approval from the Chief Compliance Officer to purchase or sell any Covered Security which has been placed on the "Restricted List" or the "Pre-Clearance List" for which the person has or will have by reason of the trade a Beneficial Ownership and that F-Squared actively engages in trading in, provides advisory services with respect to or performs research on such Covered Security.

Finally, Access Persons must seek to obtain pre-clearance trading approval from the Chief Compliance Officer before directly or indirectly acquiring beneficial ownership in any security in an initial public offering or in a limited offering.

In addition to Access Persons, all employees of F-Squared are required to receive pre-clearance trading approval from the Chief Compliance Officer to purchase or sell any security placed on the "Pre-Clearance List" or the "Restricted List."

Exempt Securities

Access Persons are required to report all transactions in Covered Securities. The following are generally not considered Covered Securities:

- Direct obligations of the Government of the United States;
- Bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements;
- Shares issued by money market funds;
- Shares issued by open-end funds except Reportable Funds (any Fund for which F-Squared serves as investment adviser or any fund whose investment adviser controls, is controlled by, or is under common control with F-Squared).

Item 12: Brokerage Practices

Index Provider Services

Brokerage practices are not applicable with respect to F-Squared's Index Provider Services.

Advisory Services

For Advisory Services clients, F-Squared may from time to time select a broker-dealer to execute the trading of underlying securities. In those circumstances, F-Squared will use best efforts to select a broker-dealer that F-Squared believes will provide the best services at competitive commission rates. When reviewing a brokerage firm and the services they provide, our assessment includes, but is not limited to the following:

- Reputation/Stability of brokerage firm
- Ability to execute trades in a timely and efficient manner
- Ability to interface with client's custodian bank
- Competitive commission rates

F-Squared does not receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions.

F-Squared does not consider, in selecting broker-dealers, whether it or one of its related persons receives client referrals from a broker-dealer or a third party. In addition, F-Squared does not routinely recommend, request or require that a client direct it to execute transactions through a specified broker-dealer nor does it permit a client to direct brokerage.

Item 13: Review of Accounts

F-Squared reviews its Advisory Services accounts as described below.

Accounts will be reviewed quarterly to help ensure that all transactions are in accordance with the Strategy and that any tracking error to the applicable AlphaSector Index is within a reasonably acceptable threshold. Accounts will also be reviewed post any trading activity to help ensure proper trade execution and settlement. These accounts receive confirmation of activity reports post any trading activity and receive account statements on a quarterly and annual basis. The Co-Chair of the Investment Committee, the Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer, and/or SVP of Operations conduct(s) these account reviews.

Item 14: Client Referrals and Other Compensation

F-Squared does not receive cash or another economic benefit from someone other than the client in connection with its provision of advisory services to the client. In addition, F-Squared does not compensate any person (other than a supervised person) for client referrals to F-Squared. That said, F-Squared may, in the future, enter into such a compensation arrangement for client referrals and will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940 to the extent such Rule applies to the arrangement.

Item 15: Custody

For certain clients, F-Squared can instruct the qualified custodian to deduct the management fee owed to F-Squared from the client's assets. In these cases, the qualified custodian sends quarterly account statements directly to the clients. Clients should carefully read these statements.

F-Squared has established an account with the following qualified custodian to hold funds and securities on behalf of the Private Fund: Merrill Lynch Professional Clearing Corp.

Item 16: Investment Discretion

Index Provider Services

F-Squared does not have investment discretion or manage client assets in connection with its Index Provider Services.

Advisory Services

F-Squared provides its Advisory Services on a discretionary basis. Before F-Squared can exercise discretion with respect to a client's assets, the client and F-Squared must execute an investment advisory agreement that contains a power of attorney granting F-Squared discretionary authority of the account's assets. The client, by selecting a particular Strategy, effectively limits F-Squared's discretionary authority to investment decisions that are in line with that Strategy.

Item 17: Voting Client Securities

Index Provider Services

Proxy voting is not applicable to F-Squared's Index Provider Services business.

Advisory Services

The Private Fund invests exclusively in ETFs. Voting authority for all corporate actions of underlying security holdings of the ETF remain with the ETF provider. In rare instances where the actual ETF has a corporate action, the voting authority will remain with F-Squared and F-Squared will vote in accordance with its proxy voting policies and procedures.

Except when a client has retained proxy voting authority, F-Squared will vote proxies relating to securities held in advisory client portfolios in accordance with its proxy voting policies and procedures. The proxy voting policies and procedures are designed and implemented in a way that is reasonably expected to ensure that proxies are voted in the economic best interests of clients. Material conflicts between F-Squared and the client in the voting of proxies are resolved in the best interest of the client.

Clients may receive a copy of these proxy voting policies and procedures upon request. Clients may also contact us at 866-288-7557 with any questions relating to how we voted their securities or how we may vote their securities in the future.

In cases where F-Squared does not have authority to vote client securities, proxies or other solicitations will generally be received by the client directly from the custodian or transfer agent. Clients are encouraged to contact their SMA platform manager or investment adviser or custodian with questions related to proxies and solicitations. If clients need further assistance with this process, they may contact F-Squared at 866-288-7657 with any questions related.

Item 18: Financial Information

F-Squared does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. F-Squared also does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. In addition, F-Squared has not been the subject of a bankruptcy petition at any time during the past ten years.