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**PART 2A OF FORM ADV: FIRM BROCHURE**

**IMPLIED CAPITAL LP**

December 2012

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*This brochure (this "Brochure") provides information about the qualifications and business practices of Implied Capital LP (the "Investment Adviser"). If you have any questions about the contents of this Brochure, please contact us at (303) 800-5529 or [msteinberg@implicitcapital.com](mailto:msteinberg@implicitcapital.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.*

*The Investment Adviser is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

*Additional information about the Investment Adviser also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

**ITEM 2**  
**MATERIAL CHANGES**

This Brochure is the Investment Adviser's Form ADV Part 2A. There are no material changes to this from for 2012.

The Investment Adviser serves as the investment adviser with discretionary trading authority to an allocation of the Paloma Master Managed Account. This is a pooled vehicle of Paloma International LP.

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

Implied Capital LP, a Delaware limited partnership, commenced operations in 2011 with an office in Boulder, Colorado. Dr. James Doran (the "Principal Owner"), controls the Investment Adviser through its general partner, Implied Capital GP LLC (the "Investment Adviser General Partner"). The Investment Adviser General Partner has ultimate responsibility for the management, operations and the investment decisions made by the Investment Adviser.

#### **B. Description of Advisory Services.**

##### **Advisory Services.**

The Investment Adviser serves as the investment adviser with discretionary trading authority to an allocation of the Paloma Master Managed Account(the "Investor"). This is a pooled vehicle of Paloma Partners Management Company.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Managed Account are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Managed Account generally must be both "accredited investors", as defined in Regulation D, and "qualified purchasers", as defined in the Investment Company Act of 1940, as amended. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of the Managed Account described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.

##### **Investment Strategies and Types of Investments.**

Please see Item 8.

#### **C. Availability of Customized Services for Individual Clients.**

The Investment Adviser's investment decisions and advice with respect to the Managed Account are subject to the Managed Account's investment objectives and guidelines, as set forth in a management agreement between Implied Capital LP and Paloma Partners Management Company.

#### **D. Assets Under Management.**

The Investment Adviser manages approximately \$150,000,000 as of December 31, 2012 on a discretionary basis.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees and Compensation.**

The fees applicable to a Managed Account are set forth in detail in the management agreement between Implied Capital LP and Paloma Partners Management Company. A brief summary of such fees is provided below.

##### **Management Fee**

Generally, the Investor pays monthly Management Fees covering the operating expenses of the Managed Account as noted in the Managed Account Agreement (the “Agreement”).

##### **Incentive Fee**

Generally, Implied Capital shall be entitled to an annual performance fee for each calendar year equal to (y) 20% of the amount, if any, by which the gross trading profit exceeds the sum of (i) the Management Fee and (ii) the Annual Hurdle Adjustment (an annual amount equal to the Average Net Account Value during the month multiplied by one-twelfth of the Treasury Rate for the Year), less (z) the Advance Amount (Partner Draws) for such Year.

#### **B. Additional Compensation and Conflicts of Interest.**

Neither the Investment Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

**ITEM 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Investment Adviser's only client is the Managed Account.

**ITEM 7**  
**TYPES OF CLIENTS**

The Investment Adviser generally provides investment advice to the Managed Account, as described above. The Investment Adviser may in the future provide investment advice to additional parties including vehicles that are separately managed accounts for institutional and other investors.

## **ITEM 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **A. Methods of Analysis and Investment Strategies.**

*The descriptions set forth in this Brochure of specific advisory services that the Investment Adviser offers to clients, and investment strategies pursued and investments made by the Investment Adviser on behalf of its clients, should not be understood to limit in any way the Investment Adviser's investment activities. The Investment Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Investment Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Investment Adviser pursues are speculative and entail substantial risks. Clients should be prepared to bear a loss of their capital. There can be no assurance that the investment objectives of any client will be achieved.*

#### **Leverage**

The Investment Adviser may use leverage in pursuing the Managed Account's investment objective or for liquidity management purposes. While leverage presents opportunities for increasing the total return on investments, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment could be magnified to the extent leverage is utilized and result in a substantial loss to Managed Account.

#### **Trading Program**

Implementing the Managed Account's strategy is a three step procedure. In the first step, the Investment Adviser will screen the investment universe and identify return opportunities across the option volatility skew. In the second step, the Investment Adviser will assess the risk in the positions taken, and attempt to control for the jump, or tail risk. In the third step, the Investment Adviser will actively manage portfolio exposures, hedging the delta and vega in the portfolio and/or resetting current open positions.

#### **Step 1 - Identify Return Opportunities.**

The procedure for finding return opportunities generally begins following the option expiration date of every month. At the start of the trading day, the Investment Adviser will generally collect option prices and volatilities on what it believes to be highly liquid U.S. indices across all strikes and the closest maturities. Next, the Investment Adviser generally will monitor the market prices and volatilities while using its model in an effort to determine the largest volatility mispricing. Finally, depending on the results, the Investment Adviser may take a position with respect to one or more options that it believes are mispriced. Each such position may be taken as a short or long position in an individual option, or as both short and long positions in multiple options.

By taking a position in an option, the portfolio becomes exposed to underlying price movements and changes in volatility. The Investment Adviser's immediate objective after taking such a position is generally to take another position in an offsetting option in an effort to make the portfolio delta neutral. Specifically, when the Investment Adviser enters



into an option position on behalf of the Managed Account, it intends to endeavor to ensure that the Managed Account remains delta neutral using another option. This may have the effect of increasing or decreasing the portfolio's exposure to volatility, depending on whether the position of the offsetting option is in the same direction.

At a minimum, the Investment Adviser will seek to buy or sell two options of the same maturity on the same day. An option will be sold or bought if market volatility is perceived to be rich or cheap, respectively, at the strike perceived to be the most mispriced, and then another will generally be bought or sold in an effort to make the portfolio delta neutral. The Investment Adviser expects to spread its net position across the first three option expirations, with the largest percentage in the front month. Thereafter, the Investment Adviser may increase or reduce its position over a period of days depending on its assessment of the level of volatility and/or the chance of jump or tail risk (*e.g.*, if volatility is higher than its historic average, then the Investment Adviser may take smaller (or no) positions to avoid exposure to large market swings).

## **Step 2 - Assess and Manage the Risk in the Positions.**

The Investment Adviser believes that this step is critical in the risk management of the strategy. Each time a position is opened, the Investment Adviser intends to assess the risks in the total portfolio and in each individual position. In particular, the Investment Adviser is concerned with the possibility of large volatility jumps in the underlying asset (*e.g.*, the possibility that the volatility of such an underlying asset will revert to its mean or spike). Since the goal of the Investment Adviser is to reduce volatility risk and tail risk, minimizing the effects of large jumps in the volatility of the assets underlying the Managed Account's positions is crucial to the success of the Managed Account. This is especially important if the Managed Account's portfolio has net negative volatility exposure.

Each time a position is opened, the Investment Adviser intends to conduct a stress test to hypothesize the following:

- I.) The change in the value of the position if the underlying jumps (see A below);
  - and
  - II.) The change in the value of the position if the volatility changes (see B below).
- A.) Jumps in the Underlying

The primary goal of the Managed Account's strategy is to extract the volatility risk premium from options. As a result, the Investment Adviser's model seeks to determine the degree of volatility mispricing in the market. It also seeks to determine the potential loss that the portfolio and the individual position would face if its underlying asset jumps in a given direction. The Investment Adviser intends to assess the likelihood of a negative or positive jump, and adjust the portfolio to reduce these "jump risks". The Investment Adviser believes that the jumps that may occur are not symmetric and that negative jumps may be much more severe than positive jumps.

The Investment Adviser may attempt to minimize jump risk in several ways, including, without limitation, entering into deep out-of-the-money options and weighted-spread positions (*e.g.* going long in-the-money or at-the-money options and short the dollar value of out-of-the-money options) with the goal of truncating the distribution of potential

payoffs and smoothing the payoff distribution and minimizing the impact of a large jump, respectively. The Investment Adviser believes that such positions have almost zero delta, making the effect on the portfolio delta negligible. The latter strategy is directional, and the Investment Adviser may implement it based on the then-current level of volatility.

**B.) Volatility changes**

While there is expected to be a negative relationship between volatility and returns, the Investment Adviser believes that this relationship is asymmetric. The portfolio is expected to be at risk when there is a spike in volatility as measured against a relatively low historic level (*e.g.*, as a result of a market sell-off). By contrast, the Investment Adviser believes that volatility will generally revert back to mean levels without a rally in market prices.

**Step 3 - Hedging the portfolio.**

After fully implementing the portfolio, the Investment Adviser intends to actively manage the delta and vega of the portfolio by employing specific hedging strategies. Such hedging strategies may include, without limitation, a delta hedge with the underlying asset in an effort to make the portfolio market neutral (*i.e.*, to remove directional bias). Once the Investment Adviser determines that an appropriate option portfolio has been established, it does not intend to take positions in other options. Instead, it may buy or sell of the underlying assets as a delta hedge based on price movement triggers. The amount bought or sold will generally be determined by the proprietary risk metrics from the Investment Adviser's model.

The Investment Adviser may also reset the option portfolio positions because of a significant jump in price and/or volatility. For example, during extreme market disconnects, the Investment Adviser may believe that the hedges it established to manage the tail risk may not fully capture anomalous events (*e.g.*, a flash crash). This may be because the tail positions were calculated by the Investment Adviser on a given distribution that subsequently changes (*e.g.*, a distribution may be based on the market conditions before an extreme event). During this type of market changing event, the Investment Adviser may close and roll out near-term options, dollar neutral, to longer-term options. The Investment Adviser believes that such actions will allow it to reset the portfolio to a new distribution by trading near-term exposures for longer-term theta, lower delta and vega while also allowing the portfolio to profit from the new volatility environment.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies.**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the client advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.*

**Use of Systems.** The Investment Adviser expects to make extensive use of computer systems and software. The Investment Adviser may use its own and third-party proprietary quantitative models and information and data supplied by third parties ("Models and Data"). Accordingly, the Investment Adviser's client is exposed to the risk that computer hardware, software and other services used by the Investment Adviser may cease to be

available, for example due to the insolvency of the provider. In such circumstances, the Investment Adviser would seek to obtain equivalent hardware, software and services from an alternative supplier.

**System Failure.** As the Investment Adviser expects to make extensive use of computer hardware, systems and software, the Investment Adviser's client is exposed to risks caused by failures of IT infrastructure and data. In addition, outright failure of the underlying hardware, operating system, software or network, may leave the Investment Adviser's client unable to trade either generally or in certain strategies, and this may expose it to risk should the outage coincide with turbulent market conditions. To ameliorate this risk, extensive backup and failover plans have been put in place by the Investment Adviser.

Some of the models used by the Investment Adviser are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, in unforeseen or certain low-probability scenarios (often involving a market disruption of some kind), such models may produce unexpected results, which can result in losses for the Investment Adviser's client. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data.

All models rely on correct market data inputs. If incorrect market data is entered into even a well-founded model, the resulting valuations will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative securities.

**Obsolescence Risk.** The Investment Adviser's client is unlikely to be successful unless the assumptions underlying the models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and the Investment Adviser does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. The Investment Adviser will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that shareholders receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on the Investment Adviser's client's performance.

**Risk of Programming and Modeling Errors.** The research and modeling process engaged in by the Investment Adviser is complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although the Investment Adviser 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 the Investment

Adviser's client's performance and likely would not constitute a trade error under the Investment Adviser's policies or the client's Investment Management Agreement.

**Short Sales.** A short sale involves the sale of a security that the seller does not own with 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 seller must borrow the security and the seller is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the seller. When the seller makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected 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 that would result in a theoretically unlimited loss. The extent to which the Investment Adviser, on behalf of its client, will engage in short sales will depend upon their trading strategy and perception of market direction and the value of individual securities. The Investment Adviser may engage in short sales as a hedge against potential market declines and/or based on its Managed Account's fundamental analysis of the subject issuers.

**Call Options.** There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option.

The buyer of a call option assumes the risk of losing his entire investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset in whole or in part by any gain on the short sale of the underlying security.

**Put Options.** There are risks associated with the sale of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option.

The buyer of a put option assumes the risk of losing his entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset in whole or in part by any gain on the underlying security.

**Derivatives.** Derivative instruments, or "derivatives," include swaps, futures, options, structured securities and other instruments and contracts that are derived from or the value of which is related to one or more underlying securities, financial benchmarks, currencies or indices.

Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Managed Account to the possibility of a loss exceeding the original amount invested.

**Leverage.** The Investment Adviser may use leverage in pursuing the Managed Account's investment objective or for liquidity management purposes. There are no limitations on the amount of leverage that the Managed Account may incur. While leverage presents opportunities for increasing the total return on investments, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment could be magnified to the extent leverage is utilized and result in a substantial loss to a client.

**Commodities Transactions.** The prices of commodities and all derivative instruments, including futures and options prices, are highly volatile. Price movements of commodities, futures and options contracts are influenced by, among other things, changing supply and demand relationships, domestic and foreign governmental programs and policies, national and international political and economic events, interest rates and governmental monetary and exchange control programs and policies. Moreover, commodity exchanges limit fluctuations in commodity futures contract prices during a single day through regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Commodity futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Managed Account from promptly liquidating unfavorable positions and subject a client to substantial losses.

**Other Risks.** Adverse changes in market and economic conditions, tax, securities or other laws or regulations or accounting standards may have an adverse effect on the Investment Adviser's investments and on the value of the Managed Account's Shares. However, it cannot be predicted whether such changes will occur and to what extent these changes may adversely affect the business of a client.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Investment Adviser's advisory business or the integrity of the Investment Adviser's management.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

A. Broker-Dealer Registration Status.

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Conflicts of Interest Relating to Other Investment Advisers.

The Investment Adviser 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. Code of Ethics.

The Investment Adviser strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, the Investment Adviser has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of the Managed Account, including the Managed Account's investors, must be kept confidential; and
- independence in the investment decision-making process must be maintained at all times.

Clients may request a copy of the Code by contacting the Investment Adviser at the address or telephone number listed on the first page of this document.

B. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. The Investment Adviser permits its employees to engage in personal securities transactions. Personal securities transactions by employees may raise potential conflicts of interests when such persons trade in a security that is owned or considered for purchase or sale by a client. The Investment Adviser's Code is designed to detect and prevent such conflicts of interest. In addition to various trading restrictions, the Investment Adviser's employees' personal securities transactions are monitored by the Investment Adviser's compliance personnel. It is possible that officers or employees of the Investment Adviser may buy or sell securities or other instruments that the Investment Adviser has recommended to clients. Moreover, the Investment Adviser may recommend to clients the purchase or sale in securities in which it, or its officers, employees or related persons have a financial interest. These transactions are subject to the Investment Adviser's policies and procedures regarding personal securities trading.



The Investment Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients.

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

## **ITEM 12**

### **BROKERAGE PRACTICES**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

As noted previously, the Investment Adviser has full discretionary authority to manage the Managed Account, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and the Managed Account's investment guidelines.

Portfolio transactions for each client will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to the Investment Adviser and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, the Investment Adviser may consider, among other things, the following:

- the ability of the brokers and dealers to effect the transaction;
- the brokers' or dealers' facilities, reliability and financial responsibility; and
- the provision by the brokers of capital introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns) charged to the Managed Account by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. The Investment Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the Investment Adviser nor the Managed Account separately compensates any broker or dealer for any of these other services.

If the Investment Adviser decides, based on the factors set forth above, to execute over-the-counter transactions on an agency basis through Electronic Communications Networks ("ECNs"), it will also consider the following factors when choosing to use one ECN over another:

- the ease of use;
- the flexibility of the ECN compared to other ECNs; and
- the level of care and attention that will be given to smaller orders.

The Investment Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

### **1. Research and Other Soft Dollar Benefits.**

The Investment Adviser does not currently receive brokerage and research services from broker-dealers in exchange for paying commissions for effecting Managed Account transactions in excess of that which another broker-dealer might have charged for effecting the transaction. If in the future, the Investment Adviser will effect such transactions, and receive such brokerage and research services, the Investment Adviser will ensure that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, and subject to prevailing guidance provided by the SEC regarding Section 28(e).

### **2. Brokerage for Client Referrals.**

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, the Investment Adviser may consider, among other things, capital introduction and marketing assistance with respect to investors in the Managed Account in selecting or recommending broker-dealers for the Managed Account.

### **3. Directed Brokerage.**

The Investment Adviser does not recommend, request or require that a client direct the Investment Adviser to execute transactions through a specified broker-dealer.

#### **B. Order Aggregation.**

If the Investment Adviser determines that the purchase or sale of a security is appropriate with regard to multiple clients, the Investment Adviser may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by the Investment Adviser. In the event of a partial fill, allocations may be modified on a basis that the Investment Adviser deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Investment Adviser. As a result, certain trades in the same security for one client (including a client in which the Investment Adviser and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

**ITEM 13**  
**REVIEW OF ACCOUNTS**

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by the members of the Investment Adviser's Management Committee, portfolio managers and research associates.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

A review of a client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

If applicable, the Investment Adviser will generally provide annual audited financial statements to its clients within 90 days of the applicable client's fiscal year end.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

A. Economic Benefits for Providing Services to Clients.

The Investment Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals.

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, the Investment Adviser has entered into agreements with several placement agents (the "Placement Agents"), pursuant to which the Placement Agents have agreed to introduce potential investors to the Managed Account.

## **ITEM 15 CUSTODY**

The Investment Adviser is not deemed to have custody of client Managed Accounts and securities because it does not have the authority to obtain client Managed Accounts or securities. Account statements related to the clients are sent by qualified custodians to the Investment Adviser.

The Investment Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to the Managed Account because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that the Managed Account be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the Managed Account distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

**ITEM 16**  
**INVESTMENT DISCRETION**

The Investment Adviser serves as the management company with discretionary trading authority to the Managed Account.

The Investment Adviser's investment decisions and advice with respect to the Managed Account are subject to its Managed Account's investment objectives and guidelines, as set forth in its Managed Account Agreement.

The Investment Adviser or an affiliate of the Investment Adviser entered into an investment management agreement, or similar agreement, with the Managed Account, pursuant to which the Investment Adviser or an affiliate of the Investment Adviser was granted discretionary trading authority.

**ITEM 17**  
**VOTING CLIENT SECURITIES**

Policies and Procedures Relating to Voting Client Securities.

The Investment Adviser does not expect to trade public equities directly, and does not expect to vote proxies on the Managed Account's behalf. If circumstances change in the future, the Investment Adviser will adopt proxy voting policies pursuant to Rule 206(4)-6.



**ITEM 18**  
**FINANCIAL INFORMATION**

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.