



## **WaveFront Capital Management, LP**

301 Battery St., Suite 400  
San Francisco, CA 94111

[www.wavefrontcap.com](http://www.wavefrontcap.com)

### **Form ADV Part 2A**

#### **Client Brochure**

February 2015

This brochure provides information about the qualifications and business practices of WaveFront Capital Management, LP ("WaveFront"). If you have any questions about the contents of this brochure, please contact Gina Harkness at (415) 508-5408 or at [gharkness@wavefrontcap.com](mailto:gharkness@wavefrontcap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any other regulatory agency.

WaveFront is registered as an investment adviser with the State of California. WaveFront is applying for registration as an investment adviser with the SEC. Registration does not imply a certain level of skill or training.

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

## **Form ADV Part 2 Client Brochure**

### **Item 2. Material Changes**

Since the April 2014 update of WaveFront's brochure, this brochure has been updated to reflect the following items were added, which may be considered material:

1. The cover page has been updated to reflect that WaveFront is applying for registration as an investment adviser with the SEC.
2. Item 4 has been updated to reflect WaveFront's investment advisory services of separately managed accounts, as well as WaveFront's intention to sub-advise mutual funds.
3. The response to Item 19 has been removed, as WaveFront is applying for registration as an investment adviser with the SEC.

### Item 3. Table of Contents

Item 2. Material Changes .....	2
Item 3. Table of Contents.....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	5
Item 6. Performance-Based Fees and Side-By-Side Management .....	6
Item 7. Types of Clients, Account Opening and Maintenance Requirement .....	6
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9. Disciplinary Information .....	11
Item 10. Other Financial Industry Activities and Affiliations .....	11
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	12
Item 12. Brokerage Practices .....	14
Item 13. Review of Accounts.....	15
Item 14. Client Referrals and Other Compensation.....	16
Item 15. Custody .....	17
Item 16. Investment Decision .....	17
Item 17. Voting Client Securities.....	17
Item 18. Financial Information .....	18
Item 19. Requirements for State-Registered Advisers.....	18

## **Item 4. Advisory Business**

### **A. The Firm and the Principal Owners.**

WaveFront is registered as an investment adviser with the State of California as of April 4, 2014. Founded in May 2013, WaveFront Capital Management, LP is a limited partnership formed in Delaware. WaveFront's principal place of business is located at 301 Battery St., Suite 400, San Francisco, CA 94111. The General Partner is WaveFront Capital Holdings, LLC. The principal owners of WaveFront Capital Holdings, LLC are Craig Millikin, Michael Loukas, Jonathan Masse, Mark Adams, and Burton Malkiel. As of January 31, 2015, WaveFront managed approximately \$9,416,663 on a discretionary basis on behalf of 21 clients, which may include individually managed accounts ("IMAs"), private pooled investment funds (each, a "Fund"), private investment funds sponsored and organized by entities other than WaveFront, and sub-advised mutual funds. Funds and IMAs are referred to collectively herein as "Clients."

### **B. Types of Services Offered**

WaveFront only manages assets on a discretionary basis. WaveFront invests principally in equities and equity-related securities, but may enter into any type of investment transaction that it deems appropriate under the terms of the Client's advisory agreement.

WaveFront currently offers two investment strategies to its clients: The WaveFront China Strategy and the WaveFront Emerging Markets Strategy. Both strategies include an index-like underlying portfolio with approximately 125-200 securities positions, and a buy-write index option overlay. The two strategies also opportunistically trade index events. WaveFront concentrates primarily on providing options-based hedged-equity emerging markets strategies to investors. WaveFront's strategies utilize a rules-based approach to hedging long-equity positions in emerging markets securities through the sale of carefully selected call and put options.

### **C. Level of Services Provided to Clients**

Currently, WaveFront offers two private funds (collectively, the "Funds"). The Funds include WaveFront China Fund, L.P. and WaveFront Emerging Markets Fund, L.P., collectively "the Funds." An investor who subscribes to interests in one or more of the Funds will not have input regarding the investment strategy or operations of that Fund.

Wave Front typically does not tailor its services to the individual needs of IMAs but manages each such account according to the strategy selected by that Client.

### **D. Wrap Fee Programs**

WaveFront does not currently participate in wrap fee programs.

**E. Assets under Management**

WaveFront manages approximately \$9.4 million of client assets as of January 31<sup>st</sup>, 2015. All client assets are managed on a discretionary basis in its Funds.

**Item 5. Fees and Compensation****A. Investment Advisory Fees**

WaveFront calculates the fees for its investment advisory services based on the percentage of assets under management. The fees are stated in the Funds' Private Placement Memorandum or the IMAs' investment management agreement. Generally, WaveFront charges a quarterly management fee in advance of 0.25% (1% per annum) of the net asset value of the assets under management.

WaveFront does not assess performance-based fees.

Lower fees for comparable services may be available from other sources. WaveFront may in its sole discretion, waive or alter the Management Fee with respect to certain clients.

**B. Deduction of Fees from the Accounts**

Generally, the fees for investment advisory services will be charged in advance to the Funds as of the first business day of each fiscal quarter. Fees are debited directly from the Fund or client accounts within the quarter following the charge to the account. For sub-advised accounts in which WaveFront does not have custody, fee invoices are sent to the appropriate party for payment remittance to WaveFront.

**C. Additional Fees and Expenses**

The quarterly fees do not include fees or expenses incurred outside of investment advisory services, such as brokerage fees and commissions, fund administration, third-party legal and accounting fees and expenses associated with offerings and sales of shares or interests (including costs and expenses associated with creating any new class of shares, or otherwise changing the structure or any term to accommodate any shareholder or limited partner). Please see Item 12 for the brokerage practices that describe services and transactions that may incur fees in addition to the quarterly investment advisory fees.

**D. Advanced Fees**

WaveFront bills the investment advisory fees quarterly, payable in advance on the first day of the quarter. Each quarterly billing is computed based on the market value of the Fund's or IMA's assets under management as of the last day of the preceding quarter plus any additional subscriptions less any withdrawals. Please see Item 5.A. for the schedule of fees listing the specific

percentages of assets under management that will be charged quarterly for the investment advisory fees. If the advisory or investment management relationship is terminated prior to the last business day of a fiscal quarter, the fees paid in advance will be prorated to the date of termination and any unearned portion of the fees will be returned to the client.

**E. Compensation for Sale of Securities or Other Investment products**

WaveFront does not assess sales or service charges in connection with the purchase or sale of securities in client accounts. As discussed in Item 5.C. above, brokerage fees and commissions may be assessed with such securities transactions.

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

WaveFront clients are not charged performance-based fees.

The Investment Manager and/or the General Partner may share portions of the Management Fee with persons who refer investors to the Fund at its own expense.

**Item 7. Types of Clients, Account Opening and Maintenance Requirement**

WaveFront currently offers its investment advisory services to qualifying individuals and institutions, which may include banks and thrift institutions, foundations, endowments, investment companies, hedge funds, pension funds, trusts, and corporations.

Currently, WaveFront serves as investment advisor to only private investment vehicles (hedge funds) and IMAs. IMAs may include accounts of collective investment vehicles such as private funds sponsored or organized by other entities, or sub-advised mutual funds. WaveFront's private funds accounts are offered only to individuals and entities who meet the eligibility requirement for investing in such funds. Subscriptions for Fund interests will generally be accepted only from accredited investors and qualified clients who are eligible to enter into a performance fee arrangement under the Investment Advisor's Act of 1940, as amended and California Code of Regulations (CCR) Section 260.234. In addition, investors will be required to make representations concerning their sophistication as investors and ability to bear risk of loss of their entire investment.

WaveFront may increase or decrease the minimum investment or subscription amount at its sole discretion subject to appropriate rules and regulations. The minimum subscription that will generally be accepted shall range from \$100,000 to \$1,000,000, depending on the terms of each Fund. For IMAs, the minimum subscription that will generally be accepted is \$2,000,000. WaveFront may, in its sole discretion, waive the minimum subscription requirement for any investor. Qualified prospective investors should carefully read the Fund's offering memorandum (the "Memorandum") and charter documents, or the IMA's investment management agreement and any accompanying materials.

**Prospective investors should consult with their own counsel and advisor as to all matters concerning an investment in a Fund or IMA.**

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

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

WaveFront uses a variety of analytical models and tools in formulating investment strategies and managing accounts. Among others, WaveFront uses fundamental analysis, technical analysis, quantitative analysis, economic analysis, country and cyclical analysis. WaveFront also examines historical price patterns and trading behavior, and monitors current market trends and sentiments as indicated by price movements.

WaveFront currently offers its clients a number of investment strategies available in different investment products. Its main strategies (the “Strategies”) are outlined below.

#### **▪ WaveFront China Strategy**

The Investment Manager intends to buy a diversified portfolio of Chinese equities (the “*Equity Portfolio*”), while employing a disciplined option strategy selling call options on Chinese equity indices and/or securities based on such indices that have a high correlation with the underlying Equity Portfolio.

As part of its hedging strategy, Investment Manager may, on occasion, implement a short put and long cash strategy, which offers a similar synthetic risk-profile as the long equity and short call strategy. The Investment Manager would construct such a position to (i) form a liquidity pool to avoid excess turnover in the Fund due to withdrawals, (ii) synthetically invest assets more quickly and cheaply in the event of money coming into the Fund, or (iii) reduce anticipated turnover based on potential options assignments.

The Equity Portfolio is typically comprised of approximately 150 Chinese companies listed in Hong Kong, New York and other major exchanges that are available to non-Chinese investors. The Equity Portfolio primarily, but not exclusively, includes shares of Chinese companies that trade on the Hong Kong Stock Exchange (“H” Shares), the New York Stock Exchange (“N” Shares) or elsewhere. The Equity Portfolio, initially, will not include shares that trade on Chinese exchanges in Shanghai or Shenzhen (i.e., “A-Shares” or “B-Shares”) although this may change in the future as determined in the sole discretion of the Investment Manager.

The Investment Manager constructs the Equity Portfolio to provide broad diversification with respect to the Chinese equity markets and modest to high correlation with a basket of Chinese indices and/or securities based on such indices that are expected to have tradable and liquid options markets. Although the Investment Manager seeks to diversify the underlying Equity Portfolio, there is no guarantee that the Partnership will be diversified at any given time.

The Investment Manager employs a hedging strategy designed to generate income, mitigate risk, and enhance returns. The Investment Manager systematically sells near-term at-the-money or slightly out-of-the-money call options on Chinese equity indices and/or securities based on such indices. The notional value of the call options at any given time are expected to be approximately equal to 100% of the underlying Equity Portfolio. Historically, because Chinese equity markets have been more volatile than more developed equity markets, the premiums received from selling such options are higher than the premiums that might be received from selling call options on more developed markets such as those in the United States. There is no guarantee that this will be the case in the future.

▪ **WaveFront Emerging Markets Strategy**

The Investment Manager intends to buy a diversified portfolio of Emerging Markets equities (the “Equity Portfolio”), while employing a disciplined option strategy selling call options on various emerging market equity indices and/or securities based on such indices that have a high correlation with the underlying Equity Portfolio.

As part of its hedging strategy, Investment Manager may, on occasion, implement a short put and long cash strategy, which offers a similar synthetic risk-profile as the long equity and short call strategy. The Investment Manager would construct such a position to (i) form a liquidity pool to avoid excess turnover in the Fund due to withdrawals, (ii) synthetically invest assets more quickly and cheaply in the event of money coming into the Fund, or (iii) reduce anticipated turnover based on potential options assignments.

The Equity Portfolio is typically comprised of approximately 200 companies listed in “Emerging Market” countries and exchanges, as well as American depositary receipts (ADRs) traded in the US, or Global Depositary Receipts (GDRs) traded on developed market exchanges. For select markets, Exchange Traded Funds (ETFs), Exchange Traded Notes (ETNs) and/or closed-end funds (CEFs) may be used when the PM determines the anticipated costs of holding a product is exceeded by benefits of risk reduction and/or trading costs exposures. For China equities, the fund manager will hold equities that trade in Hong Kong, New York and other major exchanges that are available to non-Chinese investors. The Equity Portfolio, initially, will not include shares that trade on Chinese exchanges in Shanghai or Shenzhen (i.e., “A-Shares” or “B-Shares”) although this may change in the future as determined in the sole discretion of the Investment Manager.

The Investment Manager constructs the Equity Portfolio to provide broad diversification with respect to the Emerging Market equities and modest to high correlation with a basket of Emerging Market indices and/or securities based on such indices that are expected to have tradable and liquid options markets. When prudent, in the process of portfolio construction, the Fund may invest in foreign currency, and may in its sole discretion decide whether or not to hedge the portfolio against one or more foreign currencies. Although the Investment Manager seeks to diversify the underlying Equity Portfolio, there is no guarantee that the Partnership will be diversified at any given time.



The Investment Manager utilizes numerous quantitative and qualitative measures to select a diversified portfolio of companies either operating in or doing a significant amount of business in frontier market and emerging market countries. Selection criteria generally include but are not limited to various economic factors, sector growth, industry growth and other political and regulatory factors. The portfolio generally includes securities of companies that the Investment Manager believes offer the best financial and economic prospects, as well as the mitigation of risk to the investment hedge.

The Investment Manager employs a hedging strategy designed to generate income, mitigate risk, and enhance returns. The Investment Manager systematically sells near-term at-the-money or slightly out-of-the-money call options on Emerging Market equity indices and/or securities based on such indices. The notional value of the call options at any given time are expected to be approximately equal to 100% of the underlying Equity Portfolio. Historically, because “emerging” equity markets have been more volatile than more developed equity markets, the premiums received from selling such options are higher than the premiums that might be received from selling call options on more developed markets such as those in the United States. There is no guarantee that this will be the case in the future.

- **Risk of Loss**

All securities investments risk the loss of capital and clients should be ready to bear any losses incurred from investing in securities. While WaveFront puts its best efforts to the management of clients' assets, there can be no assurance that it will not incur loss. Each investor risks losing their entire investment.

**B. Material Risks Involved in the Method of Analysis or Significant Investment Strategy**

- **Information Risk**

For each methods of analysis, WaveFront relies on the information and data filed by the Emerging Markets companies with various international and domestic government agencies or made directly available to WaveFront through sources other than the Emerging Markets companies. Although WaveFront independently analyzes all such information and data and obtains additional corroboration when deemed necessary and available, WaveFront is not able to guarantee the completeness, genuineness or accuracy of such information and data.

- **Emerging Markets Securities.**

Certain WaveFront strategies may involve a concentrated investment in securities issued by Emerging Markets companies. Investment in Emerging Markets companies involves risks and special considerations that are not typically associated with investments in the United States. Please see Item 8.C below for detailed discussions on material risks involved with investing in securities issued by Emerging Markets companies.

- **Call Options.**

WaveFront may also write (sell) listed covered options. Call options written by WaveFront give the holder the right to buy the underlying securities from WaveFront at a stated exercise price; put options written by WaveFront give the holder the right to sell the underlying security to WaveFront. A call option is covered if WaveFront owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration upon conversion or exchange of securities currently held by WaveFront. A put option is covered if WaveFront maintains cash or cash equivalents equal to the exercise price in a segregated amount with its Custodian. If an option written by WaveFront expires unexercised, WaveFront realizes a gain equal to the premium received at the time the option was written. If an option purchased by WaveFront expires unexercised, WaveFront realizes a capital loss equal to the premium paid.

### **C. Material Risks Involved with Primarily Recommended Securities**

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

#### **Foreign Securities**

The Strategies invests in securities of companies organized outside the United States (“*foreign securities*”) that are traded in U.S. or foreign securities markets. The Strategies may also invest in securities traded or denominated in foreign currency whether or not, at the time of investment, the Investment Manager considers such currency to be fully exchangeable into U.S. dollars without significant legal restriction. There is no limit on the countries in which the Strategies may invest.

The Strategies also invests in American Depositary Receipts (“*ADRs*”), which are receipts issued by an American bank or trust company evidencing ownership of underlying securities issued by a foreign issuer. Such depository receipts may be sponsored by the foreign issuer or may be unsponsored. Unsponsored depository receipts are organized independently and without the cooperation of the foreign issuer of the underlying securities; as a result, available information regarding the issuer may not be as current as for sponsored depository

receipts, and the prices of unsponsored depository receipts may be more volatile than if they were sponsored by the issuers of the underlying securities.

### **Equity Securities**

While the Strategies primarily invests in the publicly traded common stock of non-U.S. companies in emerging market or frontier market countries, the Strategies may also invest in publicly traded common stocks of U.S. and other non-U.S. companies that conduct a significant portion of their business in emerging market or frontier market countries. There is no limitation on the types or sizes of the companies in which the Strategies may invest if the Investment Manager believes they present opportunities for capital appreciation. The Strategies' investments may include common stock of issuers ranging in size from the "large-cap" and "mid-cap" companies represented in the MSCI Emerging Markets Index® to "small-cap" or "micro-cap" companies with market capitalizations lower than US\$100 million. These securities may be traded on major stock exchanges in the U.S. and other countries, the NASDAQ National Market System and equivalents in other countries or regional stock exchanges, or over the counter.

Under normal market conditions and as a matter of policy, the Investment Manager diversifies the Strategies' equity investments among a large number of issuers and industries. The Investment Manager also imposes upper bounds on the percentage a single issue can be in the portfolio to further diversify the Strategies. There may be some unusual circumstances in which the Investment Manager may go over those limits, but, in general, these circumstances would be brief and infrequent and would not contribute meaningfully to the Strategies' concentration.

## **Item 9. Disciplinary Information**

WaveFront and its investment adviser representatives do not have disciplinary history, such as criminal or civil actions in courts, administrative proceedings from the SEC, other federal or state regulatory agencies, foreign financial regulatory authorities, or proceedings with self-regulatory organizations.

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

### **A. Registered Broker-Dealers**

WaveFront and its management persons are not registered as broker-dealers.

### **B. Registered Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Adviser**

WaveFront and its management persons are not registered as futures commission merchants, commodity pool operators, or commodity trading advisers. It is exempt from registration with the National Futures Association ("NFA") under Rule 4.13(a)(3) of the Commodity Exchange Act.

**C. Material Relationships with Related Persons, Material Conflicts of Interests from Relationships or Arrangements with Related Persons**

WaveFront and its management persons have no such relationships.

**D. Conflicts of Interests from Arrangement with Other Investment Advisers**

WaveFront 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. Description of Code of Ethics (for SEC Registered Investment Adviser)**

WaveFront has adopted a Code of Ethics as of to establish guidelines and procedures that are designed to identify and prevent its employees who may have knowledge of clients' investments ("Access Persons") from breaching their fiduciary duties to the clients and address other real or potential conflict of interest. Access Persons are required to certify their compliance with the Code of Ethics on an annual basis. Access Persons are required to retain a copy of Code of Ethics. Upon request, a copy of the Code of Ethics will be provided to WaveFront clients.

WaveFront's Code of Ethics embodies the following general principles:

- WaveFront owes a fiduciary obligation to all clients, and therefore, investment advisor representatives of the Firm have a duty to act in a manner that supports this obligation.
- Access Persons have the duty at all times to place the interests of all clients first and foremost.
- Access Persons must refrain from taking inappropriate advantage of their positions with WaveFront.
- Access Persons must conduct their securities transactions in personal accounts in a manner that avoids conflicts or the appearance of conflicts of interest, or abuses of their position of trust and responsibility.

- Access Persons must avoid actions or activities that allow (or appear to allow) them or their immediate families to benefit from their positions with WaveFront, at the expense of the clients, or that bring into question their independence or judgment.
- Access Persons must comply with all applicable Federal Securities Laws.

Under WaveFront's Code of Ethics, Access Persons are mandated to give priority to clients prior to the execution of transactions in their personal accounts (including accounts owned by their immediate family members). Access Persons must also give priority to the clients before transacting securities in accounts for any person that is not a client on which such Access Person exercises control or provides investment advice. Trading for such accounts must be conducted in a manner so that the trading does not conflict with the interests of WaveFront's client.

WaveFront believes that an inherent conflict of interest exists in each of the following situations, each of which is prohibited by its Code of Ethics:

- Contemporaneously purchasing the same securities for a client account and an account of an Access Person without making an equitable allocation of the securities to the client first, on the basis of such considerations as available capital and current positions, and then to the account of the Access Person.
- Knowingly purchasing or selling securities, directly or indirectly, in such a way as to cause an adverse effect on the value of a client's account.
- Using knowledge of securities transactions by a client to profit personally, directly or indirectly, by the market effect of such transactions.
- Giving to any person information that is not generally available to the public about contemplated, proposed or current purchases or sales of securities by or for a client, except to the extent necessary to effectuate such transactions.

Access Persons are required to certify their compliance with the Code of Ethics on an annual basis. WaveFront will provide a copy of its code of ethics upon demand to a client or a prospective client.

All WaveFront personnel are encouraged to report any suspected or actual violations of applicable law or WaveFront's policies and procedures. They may make the report to either their supervisor or the Director of Operations. Supervisors are required to report any personnel reports to the Director of Operations. WaveFront, to the extent reasonably possible, will keep confidential the information reported and the source of that information, other than on a need-to-know basis as determined in the sole discretion of the Director of Operations, or as required by operation of law. Should an employee wish to report a violation or potential violation anonymously to the Director of Operations or other member of Senior Management, such employee may do so. WaveFront will not take retaliatory, directly or indirectly, against any employee who reports a violation of the WaveFront's policies and procedure. Supervisors who wish to reassign, transfer or materially

change the duties of an employee who has made such a report shall obtain the written consent of the Director of Operations prior to taking such actions.

**B. Recommending, or Buying or Selling for Client Accounts, Securities in which WaveFront or its Related Persons Have Material Financial Interests**

Please see Item 11.A above for WaveFront's policies and procedures addressing the potential conflict of interests in connection with securities in which WaveFront and its personnel may have material financial interests. WaveFront does not recommend securities to advisory clients in which advisor or any related person has some other proprietary (ownership) interest.

**C. Investment in the Same Securities (or Related Securities such as Warrants, Options, or Futures) that WaveFront or its Related Persons Recommend to Clients**

Please see Item 11.A above for WaveFront's policies and procedures addressing the potential conflict of interests in connection with investing in the same (or related) securities that WaveFront or its Related Persons recommend to clients.

**D. Recommending, or Buying or Selling for Client Accounts, Securities at or about the Same Time WaveFront or Its Related Persons Buy or Sell the Same Securities for Their Own Accounts**

Please see Item 11.A above for WaveFront's policies and procedures addressing the potential conflict of interests in connection with recommending securities that WaveFront or its Related Persons buy or sell for their own accounts.

## **Item 12. Brokerage Practices**

**A. Criteria for Selecting Broker-Dealers**

Generally, WaveFront engages broker-dealers for its funds in order to obtain the best execution for client transactions, taking into consideration the following factors:

- The ability to effect prompt and reliable executions at favorable prices (including without limitation, the applicable dealer spread or commission, if any)
- The operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution
- The financial strength, integrity and stability of the broker-dealer

- The broker-dealer's risk in positioning a block of securities
- The quality, comprehensiveness and frequency of available research services considered to be of value
- The competitiveness of commission rates in comparison with other broker-dealers

WaveFront does not recommend brokers or dealers to clients. WaveFront may also consider the following types of arrangements with broker-dealers.

1. Research and Other Soft Dollar Benefits

- a. WaveFront does not currently use Soft Dollars and has no intention to do so in the near future.

2. Brokerage for Client Referrals.

- a. WaveFront may compensate third parties for client referrals; however, it does not currently receive client referrals from broker-dealers or third parties, and currently does not pay cash compensation to any broker-dealers or third parties for client referrals. If WaveFront determines in the future to pay or compensate a third-party for Client referrals, WaveFront will disclose this practice in writing to the Client and comply with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

- b. This item is not applicable. WaveFront did not direct any client transactions to a particular broker-dealer in return for client referrals.

3. Directed Brokerage

- a. This item is not applicable.
- b. This item is not applicable.

**B. Aggregation of Trades**

Generally, WaveFront aggregates trades when it believes that it can effectively obtain best execution for Fund accounts by aggregating trades. It aggregates trades for all accounts for which the trades are both suitable and consistent with the respective investment advisory contracts, investment guidelines, and other agreements. WaveFront may not aggregate trades if doing so would conflict with its duty to seek best execution or the terms of the investment advisory contracts and other agreements. In the case of an aggregated order that has not been completely filled, WaveFront will determine an average execution price and then allocate securities among the



accounts participating in the order. Fund accounts, if necessary, are allocated such securities using a rotational allocation algorithm, which WaveFront believes to be reasonably designed to be fair to all such accounts. WaveFront may, however, increase or decrease the amount of securities allocated to one or more Fund accounts if necessary to avoid holding odd-lots or small numbers of shares.

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

#### **A. Periodic Review of Client Accounts or Financial Plans**

All accounts are generally reviewed daily by the Portfolio Manager managing the respective account. At a minimum, WaveFront staff also review monthly the cash and brokerage transactions and reconcile to the account's brokerage statements and (if applicable) the Client's administrator.

#### **B. Additional Review of Client Accounts**

WaveFront reviews its Funds on a monthly basis, and also when certain factors trigger a review. Please see Item 13.A. above for details.

#### **C. Reports Provided to Clients**

WaveFront working with a fund administrator distributes Partner Statements on a monthly basis to its Limited Partners in private funds which shows the Limited Partners value invested in the fund and its return over the past month. WaveFront also provides private fund investors with an annual report, containing audited financial statements, WaveFront's Form ADV Part 2A, and Schedule K-1 as of the end of each year. In the case of its Fund clients, WaveFront receives copies of trade confirmations and credit/debit activity on behalf of the client. Investors in a Fund do not receive copies of trade and cash movement activity. Clients in IMAs are responsible for obtaining their own brokerage statements.

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

#### **A. Economic Benefit from Persons Other than a Client**

WaveFront does not have any arrangement where a third party provides economic benefit, such as sales awards, prizes, or other form of compensation, for services provided to its clients.

#### **B. Compensation for Client Referrals**

WaveFront may compensate third parties for client referrals; however, it does not currently receive client referrals from broker-dealers or third parties, and currently does not pay cash compensation to any broker-dealers or third parties for client referrals. If WaveFront determines in the future to pay or compensate a third-party for Client referrals, WaveFront will disclose this practice in



writing to the Client and comply with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

### **Item 15. Custody**

WaveFront is authorized to deduct fees, transfer cash and assets from private fund accounts but does not have physical custody of client funds or securities. Custody of the assets of each Fund or IMA will be maintained with a clearing broker, prime broker, bank or other qualified custodian to be selected by WaveFront in its sole discretion, which selection may change from time to time. WaveFront will not maintain physical possession of the cash or securities of any Client. WaveFront is strictly prohibited from entering into a controlling or ownership position with a qualified custodian holding client assets.

Each Fund managed by WaveFront is audited by a qualified CPA firm at the end of each fiscal year unless such audit is waived by the majority unit holder(s) in the Fund. Among other qualifications, each audit firm must comply with the audit standards of the Public Company Accounting Oversight Board (PCAOB).

Each Fund managed by WaveFront maintains a bank account in its own name with First Republic Bank for processing subscriptions, withdrawals and expense payments.

### **Item 16. Investment Decision**

WaveFront as per its Funds documents manages its Funds with full investment authority to make the following determinations:

- the securities that are to be bought or sold;
- the total amount of the securities to be bought or sold;
- the brokers through which securities are to be bought or sold; and
- the commission rates at which securities transactions for Client accounts are affected.

Such transactions shall only be affected by the portfolio manager or any other authorized person of each Fund.

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

#### **A. Proxy Voting Policies and Procedures**

WaveFront shall vote proxies on behalf of its Clients and retains sole discretion to delegate the authority or refrain from voting any proxy.

**B. No Authority to Vote Client Securities**

This item is not applicable.

**Item 18. Financial Information**

**A. Prepayment of Fees**

WaveFront does not require prepayment of fees, but does charge fees in advance.

**B. Material Financial Conditions**

WaveFront has full discretionary investment authority over Clients' accounts. WaveFront does not solicit prepayment of more than \$500 in fees per client, six months or more in advance. At this time, there are no known or anticipated material events that may impair WaveFront's ability to meet contractual commitments to clients.

**C. Bankruptcy**

WaveFront has not been the subject of a bankruptcy petition at any time.

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

Not applicable as WaveFront is applying for registration with the SEC.