

# Covalis Capital LLP

## Part 2A of Form ADV

### Firm Brochure

55 New Bond Street  
London, U.K. W1S 1DG  
+44 (0) 203 540 6850  
<http://www.covaliscapital.com/>

March 2018

This brochure (the “Brochure”) provides information about the qualifications and business practices of Covalis Capital LLP (“Covalis”, “we”, “us” and similar terms, and together with our affiliates, “Covalis”). If you have any questions about the contents of this Brochure, please contact us at +44 (0) 203 540 6850. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Covalis 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 Covalis is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

On March 30, 2018, Covalis filed its initial application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), this is the first Brochure compiled by Covalis to provide new and prospective investors with clearly written, meaningful, current disclosure of its business practices, conflicts of interest and background of its advisory personnel. We encourage all recipients of this Brochure to read it carefully in its entirety. In the future, when amended in conjunction with our annual update, this item will identify and discuss any material changes since the last annual update to assist investors and make them aware of certain information that we are required to identify that has changed since the prior year’s Brochure and that may be important to them.

### **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 .....	6
Item 6 - Performance Based Compensation and Side-by-Side Management.....	9
Item 7 - Types of Clients .....	9
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9 - Disciplinary Information.....	20
Item 10 - Other Financial Industry Activities and Affiliations .....	20
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	20
Item 12 - Brokerage Practices .....	21
Item 13 - Review of Accounts.....	22
Item 14 - Client Referrals and Other Compensation .....	22
Item 15 - Custody .....	22
Item 16 - Investment Discretion .....	23
Item 17 - Voting Client Securities.....	23
Item 18 - Financial Information .....	23

## **Item 4 - Advisory Business**

### ***General Description of Advisory Firm***

Covalis is a limited liability partnership formed under the laws of England & Wales on May 11, 2012, with an office in London, United Kingdom.

Covalis is owned by its members, the majority member being Covalis Capital (UK) Limited (a UK private limited company), which is a fully owned subsidiary of Covalis Capital (Cayman) Limited (a Cayman Islands company limited by shares), which in turn is a fully owned subsidiary of Covalis Capital LP (the “Manager”, a Cayman Islands exempted limited partnership). Covalis Capital LP is controlled by its general partner Covalis Capital GP Limited (the “Manager GP”, a Cayman Islands exempted company), a fully owned subsidiary of IGE Investments Limited (a Cyprus limited liability company), which is also the sole limited partner of the Manager. IGE Investments Limited is fully owned by Mr Žilvinas Mecelis.

Covalis is under common control with Covalis Capital (America) LLC. Covalis Capital (America) LLC, based in the United States of America, is a SEC registered investment adviser. Covalis co-manages a portion of the assets of the Funds (as defined below) with Covalis Capital (America) LLC and has exclusive management of certain separately managed accounts or third-party funds.

### ***Description of Advisory Services***

Covalis serves as an additional investment manager to private investment vehicles (the “Funds”). Covalis has been delegated discretionary trading authority to manage a portion of the assets of the Funds on behalf of the appointed Manager of the Funds concerned.

The Funds include Covalis Capital Master Fund Ltd (the “Flagship Fund”) and Covalis Capital Enhanced Master Fund Ltd (the “Enhanced Fund”). The Flagship Fund has two feeder funds, Covalis Capital Fund LP, a Delaware limited partnership, and Covalis Capital Fund Ltd, a Cayman Islands exempted limited company, each of which invests substantially all of its assets in the Flagship Fund. The Enhanced Fund has two feeder funds, Covalis Capital Enhanced Fund LP, a Delaware limited partnership, and Covalis Capital Enhanced Fund Ltd, a Cayman Islands exempted limited company, each of which invests substantially all of its assets in the Enhanced Fund.

The investment objective of the Funds' is to seek to achieve absolute investment returns in both rising and declining market conditions. The Funds invest predominately in equities of utilities, infrastructure, renewable and commodities-related industries, mainly in developed OECD countries. The securities traded by the Funds are typically large cap companies, but may vary by Fund. The investable universe is relatively static and consists of approximately 300 companies of which 150-200 of them are actively covered by the research team.

This Brochure does not constitute an offer to sell or a solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and other

applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be “accredited investors” as defined in Regulation D, “qualified purchasers” as defined in the Investment Company Act, or non-U.S. Persons” as defined in Regulation S. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.

In addition to the Funds, Covalis provides discretionary management services to institutional investors via separately managed accounts and sub advisory services to third party funds.

As used herein, the term “client” generally refers to each Fund, each beneficial owner of a separately managed account or a third-party fund.

The descriptions set forth in this Brochure of specific advisory services that Covalis offers to our clients, and investment strategies pursued and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client’s investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved. In addition to providing advisory services to the Funds and discretionary management services to institutional investors via separately managed accounts and sub advisory services to third party funds, Covalis may also provide research services for a fee.

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

Covalis provides advice to the Funds based on specific investment objectives and strategies (please see Item 8 “Methods of Analysis, Investment Strategies and Risk of Loss” for a discussion of Covalis’ strategy with respect to the Funds). Investment advice is provided directly to each Fund according to its particular investment objectives and not individually to Fund investors. Covalis does not tailor its advisory services to the individual needs of investors in the Funds. Investors in the Funds may not impose restrictions on investing in certain securities or certain types of securities. Covalis has been delegated full discretion to make investment decisions on behalf of certain assets in the Funds.

Investment objectives and guidelines of separately managed accounts or third party funds are determined with the applicable client and/or set forth in detail in such client’s investment management agreement.

#### ***Assets Under Management***

As of January 31, 2018 Covalis managed approximately \$786,296,000 on a discretionary basis.

As of the date of this filing, Covalis does not manage any assets on a non-discretionary basis.

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

### ***Advisory Fees and Compensation***

The fees applicable to each Fund are set forth in detail in each Fund's offering document. Covalis receives a portion of such fees. A brief summary of the fees is set out below.

#### **Flagship Fund**

##### **Management Fee**

Covalis Capital Fund Ltd pays to the Manager a fee for management services (the "Management Fee"), payable monthly as of the last calendar day of each calendar month, equal to 0.167% to 0.334% (2.0% to 4.0% per annum) of the net asset value of each series of shares as of the end of such month (after taking into account any expenses incurred at the level of the relevant feeder fund). The Management Fee will be prorated for any subscription or redemption by a shareholder that is effective other than as of the first calendar day of a month. In the sole discretion of the Manager, the Management Fee may be waived, reduced or calculated differently with respect to certain investors.

Covalis Capital Fund LP pays to the Manager a Management Fee, payable monthly as of the last calendar day of each calendar month, equal to 0.167% to 0.334% (2.0% to 4.0% per annum) of the net asset value of each capital account as of the end of such month. The Management Fee will be prorated for any capital contribution or withdrawal by a limited partner that is effective other than as of the first calendar day of a month. In the sole discretion of the Manager, the Management Fee may be waived, reduced or calculated differently with respect to the capital accounts of certain investors.

##### **Incentive Allocation**

The Flagship Fund will make an incentive allocation to Covalis Capital Fund GP Limited (the "Fund GP"), a Cayman Islands exempted company, and an affiliate of the Manager, generally allocable on an annual basis following the end of each fiscal year, equal to 20% of the increase (if any) in the net asset value of each series of shares corresponding to an investor's investment in the applicable feeder fund for such period (after deducting the Management Fee charged in respect of such series for such fiscal year and certain other expenses incurred at the level of the relevant feeder fund), subject to a loss carry-forward mechanism.

If an investor redeems their investment other than at the end of a fiscal year, including in connection with a compulsory redemption, an incentive allocation will be determined with respect of that portion of the investment so redeemed on the relevant redemption date.

In the sole discretion of the Manager, the incentive allocation may be waived, reduced or calculated differently with respect to certain investors.

#### **Enhanced Fund**

### Management Fee

The Enhanced Fund will pay to the Manager a Management Fee, payable monthly as of the last calendar day of each calendar month, equal to 0.167% (2.0% per annum) of the net asset value of each series of shares corresponding to an investor's investment in the applicable feeder fund as of the end of such month (after taking into account any expenses incurred at the level of the relevant feeder fund). The Management Fee will be prorated for any subscription or redemption by an investor that is effective other than as of the first calendar day of a month. In the sole discretion of the Manager, the Management Fee may be waived, reduced or calculated differently with respect to the capital accounts of certain investors.

### Incentive Allocation

The Enhanced Fund will make an incentive allocation to the Manager, generally allocable on an annual basis following the end of each fiscal year, equal to 20% of the increase (if any) in the net asset value of each series of shares corresponding to an investor's investment in the applicable feeder fund for such period (after deducting the Management Fee charged in respect of such series for such fiscal year and certain other expenses incurred at the level of the relevant feeder fund), subject to a loss carry-forward mechanism.

If an investor redeems their investment other than at the end of a fiscal year, including in connection with a compulsory redemption, an incentive allocation will be determined with respect of that portion of the investment so redeemed on the relevant redemption date.

In the sole discretion of the Manager, the incentive allocation may be waived, reduced or calculated differently with respect to certain investors.

### ***Payment of Fees and Incentive Allocations***

Fees and compensation paid to Covalis by the Funds are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a monthly basis and incentive allocations are generally made on an annual basis.

### ***Separately Managed Account and Third-Party Funds***

Fees and incentive allocations for separately managed accounts or sub advisory services to third party clients are negotiated on a case-by-case basis at arm's length and are set forth in detail in such client's investment management agreement.

### ***Additional Fees and Expenses***

#### Flagship Fund

Generally, and subject to the Capped Expenses provisions described below, each feeder fund will bear its own expenses and its *pro rata* share of the Flagship Fund's expenses, including the Management Fee; investment expenses (*e.g.*, expenses that, subject to Covalis' discretion, are related to the investment of the Flagship Fund's assets, whether or not such investments are consummated, such as brokerage commissions (see Item 12), expenses relating to short sales,

clearing and settlement charges, custodial fees, bank service fees and interest expenses); and professional fees relating to investments (including expenses of consultants, investment bankers, attorneys, accountants and other experts).

The following fees and expenses are applicable to the Flagship Fund and comprise the “Capped Expenses”: administrative expenses (including fees and expenses of the Flagship Fund’s administrator, the depositary services provider and other similar service providers); fees and expenses related to obtaining research, news and market data (including, without limitation, any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data); legal expenses; external accounting and valuation expenses (including the cost of accounting software packages); audit and tax preparation expenses; fees of the Funds’ directors; directors’ and officers’ liability insurance for the Funds’ directors and Covalis; costs of printing and mailing reports and notices; corporate licensing; organizational expenses; expenses incurred in connection with the offering and sale of the interests in the Funds and other similar expenses related to the Funds; and any other fee or expense that the Manager agrees should be a Capped Expense.

For the avoidance of doubt the following, without limitation, will not be Capped Expenses: (i) fees payable to the Manager; (ii) entity level taxes; (iii) regulatory expenses (including filing fees); and (iv) indemnification expenses.

The Capped Expenses will be borne by the Flagship Fund up to a maximum monthly amount equal to 0.083% (1.0% annualised) of the net asset value of the Flagship Fund as of the last day of each calendar month (the “Capped Amount”). The amount (if any) by which the aggregate amount of the Capped Expenses in a calendar month exceeds the Capped Amount calculated on the last day of such month will be borne by the Manager.

Any expenses attributable to particular series will be allocated solely to such series, including, without limitation, any costs of currency hedging.

#### Enhanced Fund

Generally, each feeder fund will bear its own expenses and its *pro rata* share of the Enhanced Fund’s expenses, including the Management Fee; investment expenses (e.g., expenses that, in Covalis’ discretion, are related to the investment of the Enhanced Fund’s assets, whether or not such investments are consummated, such as brokerage commissions (see Item 12), expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees and interest expenses); investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of the Enhanced Fund’s investments) incurred by Covalis and approved by the Funds’ directors; professional fees (including expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to investments; administrative expenses (including fees and expenses of the Enhanced Fund’s administrator, depositary service provider and other similar service providers); fees and expenses related to obtaining research, news and market data (including, without limitation, any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data); legal expenses; external accounting and valuation expenses (including the cost of accounting software



packages); audit and tax preparation expenses; fees of the Funds' directors; costs of printing and mailing reports and notices; entity-level taxes; corporate licensing; regulatory expenses (including filing fees); organisational expenses; operational expenses, including, without limitation, the following: fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organisation or applicable law (including, without limitation, reporting obligations), facilitate and manage the order execution of securities or otherwise manage the Funds or any trading subsidiary, such as Bloomberg terminals, portfolio management systems, risk management systems and order management systems; and fees and expenses related to compliance with the rules of any self-regulatory organisation or applicable law in connection with the activities of the Funds or any trading subsidiary, including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Annex IV, Section 13 filings, Section 16 filings and other similar regulatory filings); costs relating to directors' and officers' liability insurance; expenses incurred in connection with the offering and sale of interests in the Funds and other similar expenses related to the Funds; indemnification expenses; and extraordinary expenses.

Any expenses attributable to particular series will be allocated solely to such series, including, without limitation, any costs of currency hedging.

Please refer to the applicable Fund's offering documents for a more complete disclosure of fees and expenses.

## **Item 6 - Performance Based Compensation and Side-by-Side Management**

Covalis accepts performance-based compensation from every client (other than clients that are not assessed performance-based compensation because the performance-based compensation is assessed through another entity in a single master-feeder or similar structure). As a result, Covalis does not face certain conflicts of interest that may arise when an investment adviser accepts performance-based compensation from some clients but not from other clients.

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

Covalis provides advisory services to the Funds as well as to institutional investors via separately managed accounts and sub advisory services to third party funds, as described above.

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

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

The investment objective of each Fund is to seek to achieve absolute investment returns in both rising and declining market conditions.

The Funds are expected to invest predominantly in the equities of utilities, infrastructure and commodities companies based in OECD countries in Europe. Covalis believes the investable universe of the Flagship Fund to comprise approximately 300 highly liquid mid- to large- cap companies, and the investable universe of the Enhanced Fund between 100 and 150 highly liquid large cap companies. For the avoidance of doubt, the Funds' portfolios may also include investments in less liquid and unlisted securities from time to time.

Covalis' research analysts generally are responsible for covering between 15 and 20 companies each. On-going research involves rigorous modeling of each company, line-by-line tracking of consensus assumptions and active regulatory and legislative research.

Investment theses originate from industry research, company meetings, periodic company and event calendar review. A thesis is subsequently quantified by the analysts and firmed up by senior investment professionals who are engaged in meeting company executives and relevant local regulators. An investment idea is typically generated when an internal view suggests a different outcome from market expectations.

***Material, Significant or Unusual Risks Relating to Investment Strategies and Particular Types of Securities.***

Investing in the Funds involves a risk of loss that investors must be prepared to bear. The risks inherent to the strategies employed by Covalis, including those listed above, are described in further detail in the respective Fund's offering documents.

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

**Volatility Risk.** The Funds' investment programs may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on the implied volatility of such derivatives compared to the historical volatility of underlying securities. Fluctuations or prolonged changes in the volatility of such securities, therefore, can adversely affect the value of investments held by the Funds.

Long-Term Investments. The Funds are likely to pursue investment opportunities that seek to maximise asset value or create market opportunities on a long-term basis. In pursuing such long-term strategies, the Funds may forego value in the short term or temporary investments in order to be able to avail the Funds of additional and/or longer-term opportunities in the future. Consequently, the Funds may not capture maximum available value in the short term, which may be disadvantageous, for example, for investors who redeem all or a portion of their interests before such long-term value may be realised by a Fund.

Uncertain Exit Strategies. Due to the less liquid nature of certain of the positions which the Funds are expected to acquire, Covalis may be unable to predict with confidence what the exit strategy will ultimately be for any of such given positions, or that an exit strategy will definitely be available. Exit strategies, which appear to be viable when an investment is initiated, may be precluded by the time the investment is ready to be realised due to liquidity, economic, legal or other factors, including issuer-specific factors.

Short-Term Market Considerations. Covalis' trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

Short Selling. Short selling involves selling securities which are not owned by the short seller, and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the seller to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Funds engage in short sales will depend upon Covalis' investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, increasing the cost to the Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Legal and regulatory restrictions may impact the ability of the Funds to sell a security short and/or may require the Funds to disclose any short position with possible adverse consequences to the Funds.

Equity Price Risk. The Funds' investment portfolios may include long and short positions in equity securities of public and private, listed and unlisted companies. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, geographic markets, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Funds.

Hedging Transactions. The Funds may utilise financial instruments both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Funds' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Funds' unrealised appreciation in the value of their investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads

or appreciation on any investment in the Funds' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Funds' investments; (vii) protect against any increase in the price of any investments the Funds anticipate purchasing at a later date; or (viii) act for any other reason that Covalis deems appropriate. The Funds will not be required to hedge any particular risk in connection with a particular transaction or their portfolios generally. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance for the Funds than if they had not engaged in any such hedging transaction. Moreover, it should be noted that the portfolios will always be exposed to certain risks that may not be hedged.

Emerging Market Investments. The Funds may invest in securities of companies located in emerging countries or issued by the governments of such countries. Investing in such securities involves certain considerations not usually associated with investing in securities of companies located in developed countries or issued by the government of such countries, including security and economic considerations, such as greater risks of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds, nationalisation and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; certain government policies that may restrict the Funds' investment opportunities; and problems that may arise in connection with the clearance and settlement of trades. In addition, accounting and financial reporting standards that prevail in certain of such countries generally are not equivalent to standards in more developed countries and, consequently, less information is available to investors in companies located in these countries than is available to investors in companies located in more developed countries. There is also, generally, less regulation of the securities markets in emerging countries than there is in more developed countries. Placing securities with a custodian in an emerging country may also present considerable risks.

Exchange Rate Fluctuations; Currency Risks. The Funds may invest in financial instruments denominated in currencies other than US Dollars, the prices of which are determined with reference to such currencies. The Funds, however, value their financial instruments in US Dollars. The Funds may or may not seek to hedge their non-US currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that financial instruments suitable for hedging currency or market shifts will be available at the time when the Funds wish to use them, or that hedging techniques employed by the Funds will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Funds' positions denominated in currencies other than US Dollars will fluctuate with US Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the US Dollar compared to the other currencies in which the Funds make investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the Funds' investments in their local markets and may result in a loss to the Funds. Conversely, a decrease in the value of the US Dollar will have the opposite effect on the Funds' non-US Dollar investments.

Equity Securities Generally. The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and

movements in the equity markets. As a result, the Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from Covalis' expectations or if equity markets generally move in a single direction and the Funds have not hedged against such a general move. The Funds also may be exposed to risks that issuers will not fulfil contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

Micro, Small and Medium Capitalisation Companies. Investments in securities of micro and smaller-capitalisation companies involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of micro- and small-capitalisation and even medium-capitalisation companies are often more volatile than prices of securities of large-capitalisation companies and may not be based on standard pricing models that are applicable to securities of large-capitalisation companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some micro- and small-capitalisation companies, an investment in those companies may be illiquid.

Preferred Stock. Investments in preferred stock involve risks related to preferred stocks' priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

Convertible/Exchangeable Securities. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Funds is called for redemption, the Funds will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Funds' ability to achieve their investment objectives.

Investments in Initial Public Offerings. Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalised or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for the value of the Funds' interests.

Unlisted Securities. Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Restricted Securities. Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (*e.g.*, under Rule 144A of the Securities Act). Although these securities may be resold in privately negotiated transactions, because there is less liquidity for these securities, the prices realised from these sales could be less than those originally paid by the Funds. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

Debt Securities Generally. The Funds may invest in private debt securities and other similar instruments. The Funds may invest in debt instruments that are unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments, including sovereign issuers, may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions.

The Funds may invest in bonds or other fixed income securities, including without limitation "higher yielding" (including non-investment grade) debt securities. Such securities are generally not exchange traded and, as a result, these financial instruments trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. In addition, the Funds may invest in bonds of issuers that do not have publicly-traded equity securities, making it more difficult to hedge the risks associated with such investments. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. High yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing.

Derivative Instruments Generally. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty (including risks relating to the financial soundness and creditworthiness of the counterparty), legal risk and operations risk. In addition, the Funds may, in the future, take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. Special risks may

apply in the future that cannot be determined at this time. The regulatory and tax environment for derivative instruments in which the Funds may participate is evolving, and changes in the regulation or taxation of such financial instruments may have a material adverse effect on the Funds.

The Funds may incur risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*i.e.*, 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. 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 securities necessary to satisfy the exercise of an uncovered call option, if applicable, may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

The Funds may incur risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*i.e.*, 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 if the market price falls below the exercise price of the option. 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 its entire investment in the put option.

Swap Agreements Generally. The Funds may enter into swap agreements and options on swap agreements (“swaptions”). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The Funds, for instance, may enter into correlation swaps, variance swaps, volatility swaps or other swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the Funds’ exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. The Funds are not limited to any particular form of swap agreement.

Whether the Funds’ use of swap agreements or swaptions will be successful will depend on Covalis’ ability to select appropriate transactions for the Funds. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Funds’ portfolios. Moreover, the Funds bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its respective counterparty. The Funds will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Funds to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Funds’ ability to terminate swap transactions or to realise amounts to be received under such transactions.

Swap Agreements and Synthetic Assets. The Funds may acquire exposure to indices, debt securities, structured finance securities, loans and other types of assets synthetically through derivative products such as credit default swaps (including CDS and CDX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a “Synthetic Asset”).

A Synthetic Asset could take many forms, including a credit derivative transaction that references a structured finance security, debt security or loan, a credit derivative transaction that references a portfolio or index of corporate reference entities or a portfolio or index of reference obligations consisting of structured finance securities, a total return swap transaction that references both income and any capital gains of an underlying asset, debt securities, bonds, or other financial instruments (each, a “Reference Obligation”).

Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. The Funds will have a contractual relationship only with the Synthetic Asset counterparty, and not with the issuer(s) (the “Reference Entity”) of the Reference Obligations unless a credit event occurs with respect to any such Reference Obligation, physical settlement applies and the Synthetic Asset counterparty delivers the Reference Obligation to the Funds. Other than in the event of such delivery, the Funds generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Funds will not have any rights of set-off against the Reference Entity. In addition, the Funds generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Funds also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. The Funds will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity, as well as the documentation risk associated with these instruments.

In the event of the insolvency of the Synthetic Asset counterparty, the Funds will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Funds will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one Synthetic Asset counterparty will subject such Synthetic Assets to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities.

While the Funds expect that returns on a Synthetic Asset may reflect those of each related Reference Obligation, as a result of the terms of the Synthetic Asset and the assumption of the credit risk of the Synthetic Asset counterparty, a Synthetic Asset may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default.

Currencies and Currency-Related Instruments. A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Funds are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the



specific effect, or intention, of influencing prices which may, together with other factors, cause these markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

The Funds may invest in undervalued currencies. Identifying investment opportunities in undervalued currencies is a difficult task, and there are no assurances that such opportunities will be successfully recognised or acquired. Returns generated from such investments may not adequately compensate for the business and financial risks assumed. In addition, the Funds may be required to hold such currencies for a substantial period of time before realising their anticipated value. During this period, a portion of the Funds' assets would be committed to the currencies purchased, thus possibly preventing the Funds from investing in other opportunities. Further, the Funds may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Like the writing of other kinds of options, the writing of an option on a currency constitutes only a partial hedge, up to the amount of the premium received. The Funds could be required, with respect to any option they have written, to purchase or sell currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on a currency may constitute an effective hedge against fluctuation in exchange rate, although in the event of rate movements adverse to the Funds' positions, the Funds could forfeit the entire amount of the premium plus related transaction costs.

Commodity-Related Instruments. The production and marketing of commodities may be affected by actions and changes in governments. In addition, commodity-related instruments may be cyclical in nature. During periods of economic or financial instability, commodity-related instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic material prices and possible instability of supply of various commodities. Commodity-related instruments may also experience greater price fluctuations than the relevant commodity. In periods of rising commodity prices, such instruments may rise at a faster rate; and conversely, in times of falling commodity prices, such instruments may suffer a greater price decline.

The Funds may seek to gain exposure to the commodity markets by investing in commodity swap agreements, and may also invest in other commodity-linked derivatives. The value of a commodity-linked derivative investment generally is based upon the price movements of a physical commodity (such as energy, mineral or agricultural products), a commodity futures contract or commodity index, or other economic variable based upon changes in the value of commodities or the commodity markets.

The risk of loss in trading commodities can be substantial. If the Funds purchase a commodity option, they may sustain a total loss of the premium and of all transaction costs. If the Funds purchase or sell a commodity futures contract or sell a commodity option, they may sustain a total loss of the initial margin funds and any additional funds that they deposit with their broker to establish or maintain their position. If the market moves against their position, the Funds may be called upon by their broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain their position. If they do not provide the requested funds within the prescribed time, their position may be liquidated at a loss, and they will be liable for any resulting deficit in their account.

Futures Contracts. The value of futures depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are also subject to the risk of the failure of any of the exchanges on which the Funds' positions trade or of their clearing houses or counterparties.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Funds from promptly liquidating unfavourable positions and subject the Funds to substantial losses or prevent them from entering into desired trades. In extraordinary circumstances, a futures exchange or regulator could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors.

Stressed and Distressed Obligations. The Funds may invest in obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganisation and liquidation proceedings. These obligations are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterise debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds' investments in any financial instrument, and a significant portion of the obligations in which the Funds invest may be less than investment grade.

The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets, if any, collateralising the Funds' investments will be sufficient or that prospects for a successful reorganisation or similar action will become available. In any reorganisation or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose their entire investment, may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Occasionally, the Funds may need to make a follow-up investment in an existing troubled position only in an attempt to protect the value of their initial investment. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganisation, there exists the risk that the reorganisation either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security in respect to which such distribution was made.

Repurchase or Reverse Repurchase Transactions, Buy-Sell Back or Sell-Buy Back Transactions.

The Funds may enter into repurchase and reverse repurchase transactions or buy-sell back or sell-buy back transactions. When the Funds enter into a repurchase agreement or a sell-buy back transaction, they effectively "sell" the securities to a counterparty (such as a financial institution), and agree to repurchase such securities on a mutually agreed date for the price paid by the counterparty, plus interest at a negotiated rate. In a reverse repurchase or a buy-sell back transaction, the Funds "buy" securities from a counterparty, subject to the obligation of the counterparty to repurchase such securities at the price paid by the Funds, plus interest at a negotiated rate. Repurchase, reverse repurchase and sell-buy back or buy-sell back transactions by the Funds involve certain risks. For example, if the seller of securities to the Funds under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Funds will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the Funds' ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Funds may not be able to substantiate their interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Funds may suffer a loss to the extent that they are forced to liquidate their position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

For avoidance of doubt, the above list is by no means inclusive of all risks. Please refer to the applicable Fund's offering documents for a more complete disclosure of risks.

## **Item 9 - Disciplinary Information**

Covalis and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's or prospective client's evaluation of the company or its personnel.

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

### ***Broker-Dealer Registration Status***

Covalis 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.

### ***Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status***

Covalis 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.

### ***Material Conflicts of Interest Relating to Other Investment Advisers***

Covalis 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**

### ***Code of Ethics***

Covalis has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act and predicated on the principle that Covalis owes a fiduciary duty to its clients.

Covalis' Code of Ethics is available for review and will be provided to any client or investor upon request.

### ***Securities that the Investment Adviser or a Related Person Has a Material Financial Interest***

As a result of subscriptions or redemptions and the change in the value of a Fund's assets in any month, Covalis may adjust, to the extent practicable, the exposure levels of Funds which may follow the same investment strategy to instruments in their respective portfolios at the beginning of each month in order to maintain the exposures desired by Covalis. Such adjustments may be effected by purchases and sales in the market or by a transfer from one Fund to another (a "Cross Trade"). A Cross Trade may be effected if Covalis determines, after consultation with the directors or the general partner of the relevant Fund, the transaction to be in the best interests (and consistent with the investment program, risk management and other relevant considerations) of both Funds. Generally, the relevant asset will be transferred at a price equal to its market price on the transfer date.

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a client by the Investment Adviser or its personnel, Covalis will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such a client and approved or disapproved by (i) an advisory board comprised of representatives of such investors or (ii) a committee consisting of one or more persons selected by Covalis (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

### ***Investing in Securities that Covalis or a Related Person Recommends to Clients***

Employees of Covalis must disclose or avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of clients. Therefore, Covalis endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity. Generally, employees are not permitted to purchase or sell securities, unless there has been prior approval from the Chief Compliance Officer.

### ***Conflicts of Interest Created by Contemporaneous Trading***

It is the policy of Covalis to allocate investment opportunities fairly and equitably over time. This means that such opportunities will generally be allocated among Funds for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations (a) whether the risk-return profile of the proposed investment is consistent with the Fund's objectives; (b) the potential for the proposed investment to create an imbalance in the Fund's portfolio; (c) liquidity requirements; (d) potentially adverse tax consequences; (e) regulatory restrictions that would or could limit a Fund's ability to participate in a proposed investment; and (f) the need to re-size risk in the Fund's portfolio. Such considerations may result in allocations among Funds other than on a *pari passu* basis. In certain circumstances, investment opportunities may be traded on behalf of and therefore solely allocated to one Fund for which the idea has been created.

## **Item 12 - Brokerage Practices**

Covalis has the authority to determine the brokers or dealers to be used for each securities transaction for the Funds. It is Covalis' policy when executing securities transactions to take all reasonable steps to obtain the best possible result taking into consideration relevant "execution factors" (such term as defined within the rules of the FCA), including, without limitation, commissions/price, the ability of the brokers and dealers to effect the transactions, and/or the brokers' and dealers' facilities, reliability and financial responsibility. Covalis need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Subject to the FCA rules, Covalis may enter into arrangements whereby a broker or dealer may use part of the relevant commission to pay for certain services related to the execution of transactions on behalf of customers and/or the provision of substantive investment research received by Covalis. It is intended that such arrangements will assist Covalis in the provision of investment management services to the Funds. Subject to the FCA rules, Covalis may agree that a

broker will be paid a commission exceeding the amount another broker would have charged for the same transaction if, in the good faith judgment of Covalis, the amount of the commission is reasonable in relation to the value of the brokerage and other services provided or paid for by such broker.

Covalis will also operate, to the extent applicable, within the safe harbor provided by Section 28(e) of the US Securities Exchange Act of 1934, as amended. Consistent with Section 28(e), research products or services obtained with “soft dollars” generated by the Funds may be used by Covalis to service one or more other accounts. Nonetheless, Covalis believes that such investment information provides the Funds with benefits by supplementing the research otherwise available to the Funds. Soft dollar credits generated in respect of futures, currency and derivatives transactions (that are not riskless principal transactions) do not generally fall within the safe harbor created by Section 28(e) and will be utilised only with respect to research-related products and services for the benefit of the Funds.

Covalis may open “average price” accounts with brokers. In an “average price” account, purchase and sale orders placed during a trading day on behalf of the Funds, other accounts or affiliates of Covalis are combined, and securities bought and sold pursuant to such orders are allocated among such accounts on an average price basis.

### **Item 13 - Review of Accounts**

Covalis’ Chief Investment Officer reviews the Funds’ portfolios and monitors the various risk metrics, exposures and hedges on a daily basis. In addition, the Chief Investment Officer and other investment professionals review and monitor each Funds’ portfolio investments at least weekly. The Chief Investment Officer also monitors the Funds’ portfolio whenever material corporate events or significant market or economic conditions occur that may necessitate changes in the Funds’ portfolio. The Chief Investment Officer and Chief Compliance Officer monitor each Fund to ensure compliance with the investment restrictions or guidelines of the Fund.

Investors in the Funds receive monthly unaudited statements directly from the Funds’ independent administrator. Audited year-end financial statements are provided to investors annually, within 120 days of the applicable Fund’s fiscal year end.

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

Covalis does not receive any economic benefit from someone who is not a client for providing investment advice and other advisory services.

### **Item 15 - Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks, however, Covalis may have access to client accounts since it has authority to obtain client funds or securities, by deducting advisory fees from a client’s account or otherwise withdrawing funds from a client’s account because it or an affiliate serves as the general partner of the Funds. Account statements

related to clients are sent by qualified custodians to Covalis. Investors in pooled investment vehicles will not receive statements from Covalis. Instead the Funds are subject to an annual audit and the audited financial statements are distributed to each investor in a Fund. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed to investors within 120 days of the applicable Fund's fiscal year end.

## **Item 16 - Investment Discretion**

Covalis serves as an additional investment manager of each of the Funds.

Covalis, together with the Manager, has entered into an investment management agreement, with each Fund, pursuant to which Covalis has been granted discretionary trading authority over a portion of the assets of each Fund, as may be determined by the Manager. Investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

## **Item 17 - Voting Client Securities**

Covalis has adopted a proxy voting policy as required by the Investment Advisers Act of 1940. The policy provides that Covalis will act in the best interests of its clients when determining if and how to vote proxies of client securities. Proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and exercised in a timely manner.

Covalis' proxy voting policy includes guidelines to follow when Covalis receives proxies, how these proxies are documented and the determination for how such proxies shall be voted. The proxy voting policy also includes guidelines for the Chief Compliance Officer to follow if a material conflict of interest arises between Covalis or its employees and its clients to ensure that such conflict is resolved in the best interest of the clients. In such cases, Covalis will always vote in the best interests of its clients, even if such vote conflicts with Covalis' own interests. In some instances, Covalis may choose to abstain from voting, and document the rationale for abstaining. Clients may not direct votes in a particular solicitation.

Clients may obtain a copy of Covalis' proxy voting policy and procedures upon request.

## **Item 18 - Financial Information**

Covalis is not required to include a balance sheet for its most recent financial year. Covalis has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.