



## CAERUS INVESTORS, LLC

### Form ADV Part 2A Firm Brochure

This Brochure (the “Brochure”) provides information about the qualifications and business practices of Caerus Investors, LLC (“Caerus,” the “Adviser,” the “Firm,” “we,” “us” or “our”). If you have any questions about the contents of this Brochure, please contact us at (212) 488-5510. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about Caerus is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Caerus is 281292.

*Caerus is registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered investment adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.*

### Caerus Investors, LLC

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**Brochure prepared on March 27, 2018**

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## Item 2 Material Changes

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This Brochure contains updated information about Caerus' business since the last annual updating amendment dated March 28, 2017, as well as changes made from Caerus' other than an annual amendments dated May 17, 2017, and October 20, 2017. This section of the Brochure will address only those "material changes" that have been incorporated since the last annual delivery of this document on the SEC's public disclosure website (IAPD). Accordingly, since the last annual update of this Brochure, dated March 28, 2017, the following material changes to Caerus' business and enhancements to disclosures have occurred:

- On May 16, 2017, a principal owner of Caerus, Cowen Investment Management LLC, previously known as Ramius LLC and its parent company, Cowen Inc., previously known as Cowen Group, Inc. both underwent a legal name change.
- On October 1, 2017, Messrs. Wilson E. "Ward" Davis and Brian M. Agnew and Cowen Investment Management LLC ended their strategic partnership resulting in Cowen Investment Management LLC and its parent company, Cowen Inc. no longer holding any ownership interest in Caerus. Simultaneously with ending of the strategic partnership, Mr. Wade G. "Greg" Wnuk succeeded Mrs. Andrea J.S. Sayago as the Chief Compliance Officer of Caerus.
- Item 1. Cover Page. Caerus is no longer located at 599 Lexington Avenue, 20<sup>th</sup> Floor New York, New York 10022. Effective October 1, 2017, Caerus' new principal office and place of business changed to 460 Park Avenue, 18<sup>th</sup> Floor New York, New York 10022-1808. Caerus phone number changed from (212) 845-7900 to (212) 488-5510.
- Item 4. Advisory Business. While Caerus continues to provide discretionary investment management services to privately offered pooled investment vehicles in a sub-advisory capacity, Caerus no longer provides discretionary investment management services directly to privately offered pooled investment vehicles in an advisory capacity. Revisions and enhanced disclosure to Caerus' Advisory Business were made.
- Item 5. Fees and Compensation. Revisions and enhanced disclosures were made.
- Item 6. Performance-Based Fees and Side-By-Side Management. Revisions and enhanced disclosures were made.
- Item 8. Methods of Analysis, Investment Strategies and Risk of Loss. Updates to Item 8 are in the section under Certain Risk Factors. Caerus added two new risk factors: Regulatory Risk and Cybersecurity and Electronic Systems Risk.
- Item 10. Other Financial Industry Activities and Affiliations. Caerus is no longer affiliated with the following U.S. registered broker-dealers: Cowen and Company, LLC and ATM Execution LLC as well as the dual-registered U.S. broker-dealer and investment adviser, Cowen Prime Services LLC. Caerus is no longer affiliated with Cowen International Limited, a UK FCA registered broker-dealer and Ramius UK Limited, which is currently not active but is registered with the UK FCA with respect to certain investment advisory activities. Furthermore, Caerus is no longer affiliated with the following registered investment advisors Cowen Investment Advisors



LLC (dba Ramius Advisors LLC), Cowen Trading Strategies LLC, Quadratic Capital Management LLC, Margate Capital Management LP, Cowen Advisors LLC, TriArtisan Capital Advisors LLC, Starboard Value LP, Healthcare Royalty Management, LLC, HCRP MGS Account Management, LLC, RCG Longview Equity Management, LLC, RCG Longview Management, LLC, RCG Longview Debt Fund IV Management, LLC and RCG Longview Partners II, LLC.

- Item 11. Code of Ethics. Revisions and enhanced disclosures were made.
- Item 12. Brokerage Practices. Revisions and enhanced disclosures were made.
- Item 14. Client Referrals and Other Compensation. Revisions and enhanced disclosures were made.
- Item 15. Custody. Revisions and enhanced disclosures were made.
- Item 17. Voting Client Securities. Revisions and enhanced disclosures were made.

In the future, this section of the Brochure will identify, address and discuss only the material changes since the last delivery or posting of this Brochure on the SEC's public disclosure website (IAPD) to assist and make you aware of certain information that has changed since the prior year's Brochure.

Caerus will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. All recipients of this Brochure are encouraged to read it carefully in its entirety.

Currently, Caerus' Brochure may be requested by contacting Mr. Wade G. "Greg" Wnuk, Chief Compliance Officer at [greg.wnuk@caerusinvestors.com](mailto:greg.wnuk@caerusinvestors.com) or (212) 488-5510.

Additional information about Caerus is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Caerus is 281292. The SEC's web site also provides information about any persons affiliated with Caerus who are registered, or are required to be registered, as investment adviser representatives of Caerus.



## **IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE**

*This Disclosure Brochure is not:*

- *an offer or agreement to provide advisory services to any person*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any Issuer*
- *a complete discussion of the features, risks or conflicts associated with any Issuer*

As required by the Advisers Act, Caerus provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a pooled investment vehicle managed by Caerus, together with other relevant governing documents, such as the pooled investment vehicle's private placement memoranda, offering circular or prospectus and statement of additional information, prior to, or in connection with, such persons' investment in the pooled investment vehicle.

Although this publicly available Brochure describes investment advisory services and products of Caerus, persons who receive this Brochure (whether or not from Caerus) should be aware that it is designed solely to provide information about Caerus as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant governing documents. More complete information about each pooled investment vehicle is included in relevant governing documents, certain of which may be provided to current and eligible prospective investors only by Caerus or the pooled investment vehicle's underlying sponsor. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents shall govern and control.

This Brochure includes information about Caerus and its relationships (including the relationships it expects to have) with clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein may only apply to specific clients (or may apply to future clients) or affiliates only. This brochure does not constitute an offer to sell or solicitation of an offer to buy any securities.

The descriptions set forth in this Brochure of specific advisory services that Caerus offers to its clients, and investment strategies pursued and investments made by Caerus on behalf of its clients, should not be understood to limit in any way Caerus' investment activities. Caerus may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Caerus considers appropriate, subject to each client's investment policies, objectives and guidelines. The investment strategies Caerus pursues 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.



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## Item 4 Advisory Business

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### **Firm Background**

Caerus is a Delaware limited liability company that was formed in August 2015 for the purpose of providing discretionary portfolio management and investment advisory services. Caerus and its advisory affiliates are headquartered in New York, New York. The principal owners of Caerus are Messrs. Wilson E. “Ward” Davis and Brian M. Agnew (each, a “Principal” and together, the “Principals”). Caerus filed its initial registration as an investment adviser with the SEC in August 2015 and was granted effective registration by the SEC in September 2015 under the Advisers Act.

Prior to the formation of Caerus, the Principals founded Caerus Global Investors LLC (“Caerus Global”) in January 2009, a predecessor investment advisory services firm which, in August 2015, formed a strategic partnership with Cowen Investment Management LLC (“Cowen”), a wholly owned subsidiary of Cowen Inc., a publicly traded company (NASDAQ: COWN)<sup>1</sup> which resulted in the establishment of Caerus, with Cowen as a minority equity holder in Caerus, and, ultimately, the cessation of operations of Caerus Global. Beginning in October 2017, the Principals and Cowen ended their strategic partnership resulting in Cowen no longer holding any ownership interest in Caerus.

### **Advisory Services**

Caerus currently provides discretionary portfolio management and investment sub-advisory services to two (2) unaffiliated privately offered pooled investment vehicles (each a “Private Fund” and collectively, the “Private Funds”), which are advised by Schonfeld Strategic Advisors LLC (“Schonfeld”), an investment adviser registered with the SEC, and to one (1) U.S. open-end investment company (the “Mutual Fund”) registered under the Investment Company Act of 1940, as amended (the “1940 Act”), is advised by SEI Investments Management Corporation (“SEI”), an investment adviser registered with the SEC. The Private Funds and the Mutual Fund are collectively referred to herein as the “Funds” or the “Clients”. Caerus provides its investment sub-advisory services to the Funds pursuant to an investment management agreement between Caerus and each respective Fund. Information about the Funds, and the particular investment objectives, strategies, restrictions, guidelines and risks associated with an investment, is described in the respective Funds’ offering documents (*i.e.*, private placement memorandum or prospectus), which are made available to investors only through the Funds’ primary investment adviser or another authorized party. Caerus does not provide individualized advice to investors in the Funds (and an investment in a Fund does not, in and of itself, create an advisory relationship between the investor and Caerus), investors must consider whether a particular Fund meets their investment objectives and risk tolerance prior to investing. In the future, Caerus may provide discretionary portfolio management and investment advisory services (directly or indirectly through a sub-advisory arrangement with the client’s primary investment adviser) to separately managed accounts or privately offered pooled investment vehicles. The type of Funds to which Caerus provides investment management services is more fully disclosed in Caerus’ Form ADV Part 1 and summarized in *Item 7 – Types of Clients* of this Brochure.

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<sup>1</sup> Cowen Investment Management LLC, previously known as Ramius LLC and Cowen Inc., previously known as Cowen Group, Inc. both underwent a legal name change on May 16, 2017.



Caerus' investment sub-advisory (or advisory) services consist of managing a Fund's portfolio of investments, pursuant to an investment management agreement or other similar governing agreement (the "Management Agreement"), by providing origination, acquisition, asset management, and other administrative services to each respective Fund in accordance with each Fund's respective private placement memorandum, offering memorandum, offering circular, limited partnership agreement, prospectus and statement of additional information or other similar disclosure and governing documents (collectively, the "governing documents"). Caerus' investment sub-advisory (or advisory) services consist of, but are not limited to, managing each Fund's portfolio of investments, including sourcing, selecting, and determining investments in each Fund, monitoring investments by each Fund and executing transactions on behalf of each Fund in accordance with the investment objectives, policies and guidelines set forth in each respective Fund's governing documents. Accordingly, Caerus' investment advisory services to the Funds is not tailored to the individualized needs or objectives of any particular Fund investor. An investment in a Fund by an investor does not, in and of itself, create an advisory relationship between the investor and Caerus. Investors are not permitted to impose restrictions or limitations on the management of any Fund. A Private Fund's general partner may enter into side letter agreements or arrangements with one or more investors in a Fund that alter, modify or change the terms of the interests held by such investors.

When Caerus serves as investment adviser (sub-adviser), it enters into a written Management Agreement with each of its advisory Clients, as described herein above. Such Management Agreements include provisions related to each Client's management fees, investment strategy, investment guidelines, termination rights, proxy voting and sub-adviser, if applicable. Caerus' standard Management Agreement contract generally permits either party to terminate the contract at the end of any calendar quarter following thirty (30) days' written notice or at any time following sixty (60) days written notice for pooled investment vehicles. Upon termination, Clients are billed only for the pro-rata portion of the management period. Clients do not pay a termination fee.

When Caerus serve as a sub-adviser, Caerus enters into a sub-advisory agreement with an unaffiliated investment adviser. These sub-advisory agreements typically include information related to Caerus' sub-advisory fee, investment strategy, investment guidelines, termination rights and proxy voting. The unaffiliated investment adviser enters into an investment management agreement with the end client.

The investment objective of Caerus is to seek to achieve superior risk-adjusted returns over a multiyear period by utilizing long/short investment strategies, investing primarily in equities and options on equities that trade on major global market exchanges. Caerus focuses on investments in the global consumer sector, including, but not limited to, securities in sub-sectors such as retail, apparel and footwear, restaurants, gaming and lodging, consumer products, food and beverage, consumer technology, media, transportation and homebuilding and building materials. Caerus utilizes a deep fundamental research process that seeks to (i) distinguish between winning and losing business models and (ii) evaluate the degree of "edge" in an investment or trade idea, and then determines the appropriate size of each position via liquidity, conviction and risk/reward ranking system. *See Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss* of this Brochure for more information on Caerus' investment strategies philosophy, context and process, including portfolio construction.





### **Tailored Advice and Client-Imposed Restrictions**

Caerus' investment management and sub-advisory (or advisory) services to a Fund are provided pursuant to the agreed upon terms of a Management Agreement. Caerus tailors its advisory services to the individual needs of each respective Fund and each Management Agreement is separately negotiated and designed to suit the needs of each particular Fund and its respective investment objectives, policies, and guidelines as set forth in each respective Fund's governing documents. Such advisory agreements may impose restrictions on Caerus' ability to invest in certain securities or types of securities. Additional portfolio restrictions may also include exposure limits, concentration limits, industry and sector limits, geographical limits, and liquidity limits.

Prospective clients and prospective client investors must consider whether a particular Caerus advisory relationship is appropriate for their own circumstances based on all relevant factors including, but not limited to, the prospective client's own investment objectives, liquidity requirements, tax situation, and risk tolerance. Prospective clients are strongly encouraged to undertake appropriate due diligence including, but not limited to, a review of governing documents relating to the proposed investment program for the Fund and to investigate additional details about Caerus' investment strategies, methods of analysis, and related risks, before making an investment decision or committing to a service provided by Caerus. See *Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss* of this Brochure for a more detailed discussion on investment strategies and the risks involved with such strategies.

**ALL DISCUSSION OF A FUND IN THIS BROCHURE, INCLUDING BUT NOT LIMITED TO ITS INVESTMENTS, THE STRATEGIES USED IN MANAGING A FUNDS, AND CONFLICTS OF INTEREST FACED BY CAERUS IN CONNECTION WITH THE MANAGEMENT OF A FUNDS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE RESPECTIVE FUND'S GOVERNING DOCUMENTS.**

### **Wrap Fee Disclosure**

Caerus does not participate in or sponsor any wrap fee programs.

### **Assets Under Management**

As of December 29, 2017, Caerus managed approximately \$171,553,109 of advisory assets, of which all were on a discretionary basis and none were on a non-discretionary basis. The SEC has adopted a uniform method for advisers to calculate assets under management for regulatory purposes which it refers to as an adviser's "regulatory assets under management." Regulatory assets under management are generally an adviser's gross assets, *i.e.*, assets under management without deduction for outstanding indebtedness or other accrued but unpaid liabilities. Caerus reports its regulatory assets under management in Item 5 of Part 1 of Form ADV which you can find at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).





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## Item 5 Fees and Compensation

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In consideration for Caerus' advisory and other services, Caerus generally is entitled to receive management fees, and may receive performance allocations, with respect to the Private Funds. While the fees and compensation applicable to each Fund are described in detail in the applicable governing documents and/or Management Agreements, an overview of Caerus' basic fee schedule is summarized below. A potential investor should read and review all governing documents in their entirety before making any investment decisions.

### **Fee Schedules**

#### ***Private Funds***

**Management Fees:** In consideration for its sub-advisory services to the Private Funds, Caerus receives a "**Management Fee**" from each respective Private Fund. The specific payment terms and other conditions of the Management Fees available to Caerus are set forth in the applicable Private Fund's governing documents and/or Management Agreement. The Management Fees are generally a percent of the Private Funds' assets managed by Caerus, on the appraisal date, payable quarterly or monthly in arrears or in advance. Management Fees are generally paid to Caerus by directly billing the Private Fund. Upon the termination of Caerus' Management Agreement with a Private Fund, Caerus will refund to the Private Fund the pro-rated portion of any Management Fee already received by the Private Fund for the period following the effective date of such termination.

**Performance-Based Compensation:** Additionally, Caerus may receive "**Performance-Based Fees**" (e.g., carried interest or incentive fees) in connection with the management of each respective Private Fund. The specific payment terms and other conditions of the Performance-Based Fees available to Caerus are set forth in the applicable Private Fund's governing documents and/or Management Agreement. Generally, Performance-Based Fees payable to Caerus are payable quarterly, annually or more frequently in arrears. All Performance-Based Fees payable to Caerus will be consistent with the requirements of Section 205 of the Advisers Act and Rule 205-3 thereunder.

Performance-Based Fees payable to Caerus on investment gains may create an incentive for Caerus to cause a Private Fund to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect. The Performance-Based Fees may create an incentive for Caerus to time investments, and the realization of investments, so as to maximize Performance-Based Fees rather than the returns of the Private Fund. *See Item 6 – Performance-Based Fees and Side-By-Side Management* of this Brochure for more information about Performance-Based Fees.

As of the date of this Brochure, Caerus manages two (2) Private Funds for which it receives Management and Performance-Based Fees.



## ***Mutual Funds***

***Management Fees:*** In consideration for its sub-advisory services to the Mutual Fund, Caerus receives a Management Fee (accrued daily) from SEI and payable monthly in arrears. The specific payment terms and other conditions of the Management Fees available to Caerus are set forth in the Mutual Fund's governing documents and/or Management Agreement. The Management Fee is based upon the Mutual Fund's average daily net assets, which may or may not be net of investment leverage (borrowed capital). Such Management Fee is deducted from the Mutual Fund's assets on a monthly basis. In addition to Management Fees, administrative fees, and brokerage and transaction costs, investors in the Mutual Fund's will indirectly bear certain other fees and expenses paid by the Mutual Fund, including, but not limited to expenses of the independent trustees of the Mutual Fund, fees and expenses for legal, fund accounting, transfer agency, custodial and auditing services, interest expense, taxes, and other investment-related costs, insurance premiums, extraordinary and non-recurring and certain other unusual expenses. For additional detail on these fees and expenses, please refer to the Mutual Fund's governing documents (*i.e.*, prospectus and statement of additional information).

As of the date of this Brochure, Caerus manages one (1) Mutual Fund for which it receives Management Fees.

## ***Separate Accounts***

Caerus' Management Fee for managing an institutional separate account are determined through negotiation with each Client and are set forth in the Management Agreement with the Client. Typically, a separate account Client will pay Management Fees ranging from 0.75% to 2.0% annually. Management Fees are generally based upon the average daily net assets, which may or may not be net of investment leverage. Caerus may also collect Performance-Based Fees, which are generally based on an adjustment based on investment performance compared to an established benchmark index over a specified period of time and generally payable quarterly, annually or more frequently in arrears. Separate account Clients who negotiate Performance-Based Fees may pay a lower base Management Fee. Separate account Clients generally are responsible for brokerage commissions, transfer taxes, and other brokerage fees and investment expenses relating to investment instrument transactions in the separate account. Separate account Clients may incur operating and transaction fees, costs, and expenses associated with maintaining their accounts imposed by custodians, brokers, futures commission merchants, prime brokers, and other third-parties. Caerus does not receive any portion of these commissions, fees, or costs.

As of the date of this Brochure, Caerus does not manage any separate accounts for which it receives Management and Performance-Based Fees. In the future Caerus may advise other types of Clients, including but not limited to separately managed account for high net worth individuals, institutions, and other sophisticated and qualified investors.



## **Advisory Services Compensation**

Caerus' fees generally depend on the services being provided and vary from product to product based on a variety of factors, including but not limited to, the investment mandate or strategy, investment vehicle, degree of servicing required, account/relationship size, market-place conditions, and other factors Caerus deems relevant. For investment management services, fees typically are expressed as a percentage of the net assets under management. To the extent permitted under the Advisers Act, or the applicable provisions of the 1940 Act, in the case of investment companies registered under the 1940 Act, Caerus may negotiate and charge Performance-Based Fees or special allocations, as well as Management Fees. Clients who negotiate Performance-Based Fees may pay a lower base Management Fee. In addition, fees and allocations may be fixed, fixed plus performance, or performance only. See *Item 6 – Performance-Based Fees and Side-By-Side Management* of this Brochure for more information about Performance-Based Fees.

Caerus' Management Fees are typically calculated as a percentage of the market value of a Client's assets under management in accordance with its contractual Management Agreement. Fee breakpoints may be available for certain strategies and product types. Caerus' standard fee schedules, which are subject to change and may be negotiated, are described above under "Fee Schedules". Existing Clients may have different fee arrangements from those described in under Fee Schedules. To the extent Caerus engages a sub-adviser, it will pay the sub-adviser a portion of the management fee that Clients pay to Caerus. Caerus' Clients do not pay any fees, commissions or expenses directly to sub-advisers.

Caerus may, in its sole discretion, charge lower Management Fees or waive account minimums based on certain criteria including product type, investment strategy, client type, client domicile, services provided, the client's historical relationship with Caerus, number of related investment accounts, account composition or size, anticipated future earning capacity, current and anticipated future assets under management, marketplace considerations, early adoption of an investment strategy or investment in a particular vehicle, client's operational or investment limitations or restrictions, level of client servicing required, and other factors Caerus deems relevant. Caerus, in its sole discretion, may also waive or charge lower Management and/or Performance-Based Fees and waive account minimums for employees, including portfolio managers, affiliates, or relatives of such persons. Assets from related accounts in similar investment vehicles may be aggregated for fee calculation purposes according to Caerus' policies and procedures.

Caerus may be limited in its ability to negotiate fees due, in part, to existing Client contracts, which require equivalent pricing. Under the terms of these agreements, Caerus is generally required to charge the same fee schedule to similarly-situated Clients. Generally, Caerus considers Clients to be similarly-situated if they are domiciled in the same country, are in the same investment vehicle managed as a component of the same investment composite, are of the same client type, require a similar level of client servicing, and have a similar account size, among other factors Caerus deems relevant.

To the extent fees are negotiable, certain Clients may pay more or less than other Clients for the same management services. In cases where consulting or referral arrangements are in place in which broker-dealers, investment advisers, trust companies, and other providers of financial services typically provide Clients with services that complement or supplement Caerus' services, Caerus may charge lower Management Fees for accounts managed.



In addition to Caerus' Management Fee, Clients may incur operating and transaction fees and costs and expenses associated with maintaining their accounts imposed by custodians, brokers, futures commission merchants, prime brokers, and other third-parties. Examples of these charges include but are not limited to custodial fees, margin, deferred sales charges, "mark-ups" and "mark-downs" on trades, odd-lot differentials, transfer taxes, handling charges, exchange fees (including foreign currency exchange fees), interest to cover short positions, wire transfer fees, electronic fund fees, conversion fees for American Depository Receipts ("ADRs"), and other fees and taxes on brokerage accounts and securities transactions. Caerus does not receive any portion of these commissions, fees, or costs. See, however, *Item 12 – Brokerage Practices* of this Brochure for more information about soft-dollars. See also *Item 12 – Brokerage Practices* of this Brochure for more information about conversion fees for ADRs. As a sub-adviser, Caerus will receive a portion of the management fee the end Clients pay to the adviser; these Clients do not pay any fees, commissions, or expenses directly to Caerus.

Caerus generally invoices Clients on a monthly, quarterly, or semi-annual basis in arrears or in advance for its Management Fees. In any partial billing period, Caerus pro-rates fees based on the number of days an account is open. If a Client requests that Caerus automatically deduct Management Fees from its accounts, Caerus will bill the Client's custodian directly in accordance with Rule 206(4)-2 (the "Custody Rule") under the Advisers Act. Caerus may invest separate account assets in unaffiliated pooled investment vehicles that charge fees described in the pooled investment vehicles' governing documents. Separate account assets invested in these unaffiliated pooled investment vehicles may pay both Caerus' investment management fee and the unaffiliated pooled investment vehicles' fees and expenses. To the extent Caerus invests separate account assets in sponsored (affiliated) pooled investment vehicles (*e.g.*, a Fund managed by Caerus), these assets generally will not be included as separate account assets for purposes of calculating or charging the Client's Management Fee.

### **Direct Expenses**

Each Client is responsible for expenses related to its respective operations and activities, including expenses associated with its investment portfolio and, if applicable, its proportionate share of the direct expenses of the third-party investment products in which it invests. The direct expenses incurred by each Client, which are outlined in detail in their respective governing documents and/or Management Agreement, as applicable, may vary depending on the nature of the operations and activities of the Client.

Below is a summary of the direct expenses typically borne by each type of Client. The summary is not meant to be a complete list of all direct expenses; nor should it be inferred that each expense appearing in the summary will be incurred by every Client. Clients are advised to read the relevant governing documents and/or Management Agreement, as applicable, for a complete description of applicable direct expenses.

Generally, expenses related to operations and activities include, but are not limited to, the following: organizational and offering expenses (with respect to Private Funds), fees payable to the Caerus, third-party administrator and other investment expenses (*e.g.*, expenses that Caerus reasonably determines to be related to a Client's investment of assets, such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, premiums paid for options, swaptions, and other derivative instruments, bank service fees, and interest expenses); operational expenses; expenses incurred with respect to due diligence; investment-related travel expenses; the cost of computer hardware and software to the extent used for research relating to the Client's investments; legal and compliance expenses (including,



without limitation, the fees and expenses of attorneys and compliance professionals retained by Caerus on behalf of the Client); professional fees (including, without limitation, expenses of consultants and experts) relating to investments; accounting expenses (including the cost of accounting software packages); auditing and tax preparation expenses (whether provided by the employees of Caerus or another party); costs of printing and mailing reports and notices; taxes; corporate licensing; regulatory expenses (including, whether reported directly by the Client or Caerus, the costs and expenses related to a Client's U.S. and/or non-U.S. registration, regulatory and self-regulatory filings, reporting, registrations and memberships, and compliance including without limitation the costs of compliance reporting programs, third-party compliance consultants including the costs and expenses associated with complying with the requirements of any new or additional regulatory regime); insurance expenses; expenses incurred in connection with the offering and sale of the interest and other similar expenses related to the Client; and extraordinary expenses incurred by or relating to the Client or its activities and assets. See *Item 12 – Brokerage Practices* of this Brochure for more information about brokerage costs.

Each Mutual Fund is generally responsible for its own operating expenses (all of which are borne directly or indirectly by the Mutual Fund's shareholders), including among others, legal fees and expenses of counsel to the Mutual Fund and the Mutual Fund's independent trustees; insurance (including trustees' and officers' errors and omissions insurance); auditing and accounting expenses; taxes and governmental fees; listing fees; dues and expenses incurred in connection with membership in investment company organizations; fees and expenses of the Mutual Fund's custodians, administrators, transfer agents, registrars, and other service providers; expenses for portfolio pricing services by a pricing agent, if any; other expenses in connection with the issuance and offering of shares; expenses relating to investor and public relations; expenses of registering or qualifying securities of the Mutual Fund for public sale; brokerage commissions and other costs of acquiring or disposing of any portfolio holding of the Mutual Fund; expenses of preparation and distribution of reports, notices and dividends to shareholders; expenses of the dividend reinvestment plan; compensation and expenses of trustees; any litigation expenses; and costs of shareholders' and other meetings.

### **Sales-Based Compensation**

Neither Caerus nor any of its supervised persons accept compensation for the sale of securities or other investment products. This practice presents a conflict of interest and gives Caerus or its supervised persons an incentive to recommend investment products based on the compensation received, rather than on a particular Client's needs.



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

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As discussed in Item 5 above, Caerus may receive Performance-Based Fees (e.g., carried interest or incentive fees) in connection with the management of the Private Funds. The specific payment terms and other conditions of the Performance-Based Fees available to Caerus are set forth in the applicable Private Fund's governing documents and/or Management Agreement. Generally, the Private Fund's will pay Caerus an annual Performance-Based Fee of the "Net Profits" for each year within forty-five (45) days after the last day of a calendar year in which the Performance-Based Fee was earned. The Performance-Based Fee is subject to a "high water mark" so that Caerus is only entitled to receive the Performance-Based Fee if profits for the calendar year are sufficient to recoup all prior trading losses in the Private Fund's portfolio, thus surpassing the previous "high water mark." For any calendar year in which a Private Fund has a "Net Loss," such amount is carried forward and no Performance-Based Fee is payable with respect to the Private Fund unless and until the Net Losses of the Private Fund are recovered by subsequent Net Profits.

The receipt of Performance-Based Fees from certain Clients may create an incentive for Caerus to make riskier or more speculative investments on behalf of such Clients than they might otherwise make in the absence of such Performance-Based Fees. Performance-Based Fees may also incentivize Caerus to overvalue assets in order to increase the amount of its Performance-Based Fees. The performance on which Performance-Based Fees are calculated may, in certain circumstances, include unrealized appreciation and depreciation of investments that may not ultimately be realized and as a result may create an incentive for Caerus to time investments, and the realization of investments, so as to maximize Performance-Based Fees rather than the returns of the Client.

Similarly, Caerus charges Management Fees to Clients that vary. Different Management Fees may incentivize Caerus to dedicate increased resources and allocate more profitable investment opportunities or best investment ideas to Clients who are charged Management Fees (or Performance-Based Fee arrangements) that are more profitable for Caerus. Further, Performance-Based Fee calculations and hurdle rates may differ from Client to Client which may result in certain conflicts of interest, such as motivating Caerus to invest a Client in assets with heightened risk profiles that have the potential to produce relatively higher returns or causing Caerus to favor certain Clients over others. In addition, Caerus may compensate or provide discretionary bonuses to portfolio managers that are based on, among other things, the performance of a Client they manage or are otherwise responsible for, or based on the outcome of the specific advisory project. Caerus or its personnel or affiliates may have other pecuniary interests in Caerus' advisory Client's accounts.

In the event Caerus should advise multiple accounts or funds having different fee structures, Caerus believes that it has reasonable controls in place to mitigate potential conflicts of interest. These controls include trade allocation procedures that govern allocation of securities, including limited offerings and average pricing of executed trades among similar accounts, and analysis of performance achieved by accounts managed in a similar strategy. Caerus' procedures generally require accounts with similar investment strategies to be managed in a similar fashion, subject to a variety of exceptions, such as particular investment restrictions or policies applicable only to certain accounts, differences in cash flows and account sizes and similar factors.





Performance-Based Fee compensation is subject to Section 205(a)(1) of the Advisers Act, in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that Performance-Based Fees only be charged to “qualified clients” as defined in Rule 205-3(d)(1) of the Advisers Act.

## **SPECIFIC CONFLICTS OF INTEREST AND CAERUS’ PRACTICES DESIGNED TO MITIGATE SUCH POTENTIAL CONFLICTS OF INTEREST**

Like all investment advisers who advise multiple accounts or funds having different fee structures, Caerus and its personnel will face actual and potential conflicts of interest, including an incentive to favor those Client accounts in which Caerus or its personnel have greater pecuniary interests over other Client accounts. Such potential conflicts of interest and Caerus’ practices that are designed to mitigate such potential conflicts of interest are discussed below. As a general matter, Caerus addresses such potential conflicts by following a thorough, detailed, and consistent investment decision-making process and by regular reviews of investments by Caerus’ investment staff.

- **Allocation of Investments.** Caerus may have an incentive to allocate investment opportunities based on pecuniary interest. Caerus and its personnel will face a conflict of interest when considering how to allocate limited investment opportunities among Client accounts having different fee structures or pecuniary interests, including Client accounts in which an affiliate is an investor. Through its relevant policies and procedures, Caerus seeks to promote fair and equitable treatment of Client accounts (including the allocation of investment opportunities) over time based on considerations that are unrelated to pecuniary interests.
- **Compensation of Caerus and its Personnel.** Caerus and its personnel may have an incentive to take on more risk when compensation is based on performance: The receipt of Performance-Based Fee compensation and the payment of bonuses relating to performance of Client accounts creates an incentive to make riskier investments than might be made in the absence of Performance-Based Fee compensation, as such compensation generally allows participation in gains in excess of exposure to losses. On the other hand, Performance-Based Fee compensation encourages an alignment of long-term investment interests between the Client and Caerus. Moreover, Performance-Based Fee compensation may be subject to mechanisms designed to ensure that prior losses are recouped and/or a certain level of gains is achieved before any Performance-Based Fee compensation accrues, such as loss carry forwards, hurdle rates, and/or high-water marks. Furthermore, as discussed in more detail in Item 13 of this Brochure, Caerus reviews each Client account that it advises on a regular basis to monitor risk levels. In addition, engaging in high risk investment practices that cause adverse performance will have a negative impact on the receipt by Caerus of Performance-Based Fee compensation and the receipt of discretionary bonuses paid to portfolio managers.
- **Performance-Based Fees for Caerus and Valuations.** When Caerus’ compensation is based on the value or performance of investments, Caerus has an incentive to value a position at a price higher than it might otherwise be valued or to accelerate or defer realizations. To the extent that performance allocations may be based on increases in the net assets of a Client’s account, Caerus’ compensation would be based upon unrealized appreciation as well as realized appreciation. This means that Caerus may be compensated on performance that is ultimately not realized if positions





decrease in value and are subsequently sold at a loss. The potential for inflated valuation of positions is increased when such positions are illiquid or otherwise lack a readily ascertainable market value. Caerus seeks to mitigate this conflict by valuing assets in accordance with its valuation policy, which is reasonably designed to assure that valuations are performed in a consistent and thorough manner that insulates the conflict. In general, Caerus considers the views of outside experts, including third-party valuation firms, in determining the value of illiquid or other hard to value assets. Caerus further seeks, on a best effort basis, to receive third party valuations from broker/dealers for security holdings of Caerus' Clients accounts.

- **Cross-Transactions.** Generally, Caerus will not engage in cross-transactions. However, should Caerus engage in cross-transactions, it may have an incentive to favor Client accounts in which it has a greater pecuniary interest. Caerus will conduct such transactions in accordance with its policies to promote fairness to all participating accounts (*e.g.*, by assuring that an appropriate price is assigned to the security being crossed). Where required by law or the governing documents for a Client account, cross transactions are subject to Client consent prior to settlement. Information about said transaction, including the nature of the rebalancing transaction, the price at which it will be effected, and Caerus' position as principal, if applicable, are provided to allow the Client to determine whether or not to consent.
- **Other Conflict Mitigation Practices.** Many of the conflicts resulting from performance-based fees and side-by-side management are mitigated by Caerus' relevant policies and procedures. As a general principle, Caerus requires that potential conflicts of interest be addressed by placing Client interests before personal or proprietary interests. Caerus has also instituted policies to promote fair treatment of Client accounts based on considerations unrelated to pecuniary interests to ensure that, wherever possible and over time, opportunities are allocated in a fair and equitable manner.



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## Item 7 Types of Clients

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As discussed in Item 4 – Advisory Business of this Brochure, Caerus currently provides discretionary portfolio management and investment sub-advisory services to two (2) unaffiliated privately offered pooled investment vehicles (*i.e.*, the Private Funds), which are advised by Schonfeld Strategic Advisors LLC, an investment adviser registered with the SEC, and one (1) U.S. open-end investment company registered under the 1940 Act (*i.e.*, the Mutual Fund), which is advised by SEI Investments Management Corporation, an investment adviser registered with the SEC. Caerus provides its investment sub-advisory services to the Funds pursuant to a Management Agreement between Caerus and each respective Fund. Information about the Funds, and the particular investment objectives, strategies, restrictions, guidelines, and risks associated with an investment, is described in the respective Funds’ offering documents (*i.e.*, private placement memorandum or prospectus), which are made available to investors only through the Funds’ primary investment adviser or another authorized party. In the future, Caerus may provide discretionary portfolio management and investment advisory services (directly or indirectly through a sub-advisory arrangement with the client’s primary investment adviser) to separately managed accounts or sponsored (affiliated) privately offered pooled investment vehicles. Caerus may advise both U.S. and non-U.S. Clients.

The Private Funds sub-advised by Caerus may be organized as domestic or offshore (non-U.S.) companies, limited partnerships, limited liability companies, corporate trusts, or other legal entities, as determined appropriate by the Private Funds’ primary investment adviser. The Mutual Funds sub-advised by Caerus may be organized as domestic companies, limited partnerships, limited liability companies, corporate trusts, or other legal entities, as determined appropriate by the Mutual Funds’ primary investment adviser.

Generally, investors participating in a Private Fund are required to meet certain suitability and net worth qualifications, such as (i) an “accredited investor” within the meaning of Rule 501 of Regulation D under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or (ii) a “qualified purchaser” as defined in Section 2(a)(51) of the 1940 Act. As such, the Private Funds Caerus sub-advises is exempt from registration as an investment company through the exemption provided by Sections 3(c)(7) of the 1940 Act. Typically, each investor in a Private Fund that is exempt from the registration requirements under Section 3(c)(7) of the 1940 Act is required to qualify as a “qualified purchaser” within the meaning of Section 2(a)(51) of the 1940 Act and is required to certify that it is at least an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act and non-U.S. investors are required to certify that they meet the requirements of the Regulation S safe harbor under the Securities Act. Where Caerus does not charge Performance-Based Fees to a particular Client, investors will only be required to qualify as an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act. As noted above in Item 6 of this Brochure, if Caerus collects performance related compensation, investors will be required to meet the requirements of Rule 205-3 under the Advisers Act and certify that they are at least a “qualified client.” A potential investor in a Private Fund should read and review all governing documents in their entirety for specific investor qualifications and before making any investment decisions.

To help the U.S. Government fight the funding of terrorism and money laundering activities, Caerus may seek to obtain, verify, and record information that identifies each investor who invests in a Client. In this regard, when an investor seeks to open an account with Caerus or invest in a Fund managed by Caerus (including a separately managed account), Caerus may ask for a completed Form W-8/W-9, as applicable, which includes the name, address, Tax ID/Employer ID number (or any other registration number issued



in the jurisdiction of location or incorporation) and other reasonably required information that will allow Caerus to identify the investor. Caerus may ask for information and documentation regarding source of funds to be invested. Caerus also reserves the right to ask for more information regarding the individuals who are beneficial owners of the investor and/or exercise control over the investor. Caerus may ask for the names of such beneficial owners and may also ask for address, date of birth, and other information that will allow Caerus to identify such beneficial owners. Caerus may also request such other information as may be necessary to comply with applicable law. Furthermore, Caerus may verify any of the aforementioned information using third-party sources and may share that information as required by applicable law or in connection with the execution of trades on behalf of that investor. For certain investors, Caerus may rely on the investor's broker-dealer, administrator, transfer agent, custodian or placement agent to obtain, verify and record the required information.

With respect to separately managed accounts, the minimum investment is determined on a case by case basis. The minimum investment for Mutual Funds is expected to be \$1,000 or \$100,000, depending upon the share class acquired by the investor. Caerus does not determine the minimum investment amount for Clients that it advises in a sub-advisory capacity. Each Fund's minimum investment amount is stated in each respective Fund's governing documents. A potential investor in a Fund should read and review all governing documents in their entirety for specific investor qualifications and before making any investment decisions.



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

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The following is a summary of the investment strategies and methods of analysis employed by Caerus on behalf of Clients. This summary should not be interpreted to limit in any way Caerus' investment activities. Caerus may offer any advisory services, provide advice with respect to any investment strategies, and make any investments, including those that may not be described in this Brochure, that Caerus considers appropriate, subject to each Client's investment objectives and guidelines. Specific descriptions of such strategies and methods are included in each Client's governing documents. In the case of sub-advised or separate accounts managed by Caerus, the investment strategies and methods of analysis employed on behalf of each managed account will be set forth in the Management Agreement between the managed account and Caerus or in other related documents. There can be no assurance that the investment objectives of any Client will be achieved.

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

Each Client's investment strategy is outlined in its applicable governing documents and/or Management Agreement or in other related documents. Caerus seeks to achieve its Client's investment objectives by utilizing a long/short investment strategy, investing primarily in equities and options on equities that trade on major global market exchanges. Caerus focuses on investments in the global consumer sector, including, but not limited to, securities in sub-sectors such as retail, apparel and footwear, restaurants, gaming and lodging, consumer products, food and beverage, consumer technology, media, transportation, and homebuilding and building materials. Caerus utilizes a deep fundamental research process that seeks to (i) distinguish between winning and losing business models and (ii) evaluate the degree of "edge" in an investment or trade idea and then determine the appropriate size of each position via liquidity, conviction, and risk/reward ranking system. In attempting to distinguish between winning and losing business models, Caerus typically will evaluate (i) business model strength indicators including, but not limited to, overall market share, management depth, and historic return profile, (ii) current state of business indicators including, but not limited to, revenue trends, operating expense trends, and free cash flow trends, (iii) valuation indicators including, but not limited to, price to earnings ratio, the ratio of enterprise value to EBITDA (earnings before interest, taxes, depreciation and amortization), free cash flow yield, and the ratio of price to book value, and (iv) sentiment indicators including, but not limited to, short interest, sell side rankings, and technical analysis. In determining the appropriate size of each position, Caerus will typically run the investment or trade through several screens, with the first being a liquidity screen. In general, each position will have a market capitalization higher than U.S. \$250 million (measured at the time of investment). It is anticipated that generally, no more than 10% of invested capital will be in positions with a market capitalization of less than U.S. \$1 billion. Typically, Caerus will run the investment or trade through a conviction screen, where the reliability of the analysis will be considered and the prior track record on the idea assessed. Finally, Caerus will typically rate the idea with a risk/reward ranking. The percent upside to target price will be divided by the percent downside to risk price.

Caerus may obtain advice from attorneys, accountants, and other experts to assist in its analysis of various asset classes that it trades. In addition, Caerus may utilize financial leverage to the extent its use fits within a Client's investment objectives and guidelines and/or enter into various derivative instruments including options contracts on behalf of its Clients. The foregoing is only an attempt to summarize the strategies and securities/instruments utilized on behalf of Caerus' Clients. As the market environment continues to



change, Caerus may engage in techniques and purchase instruments that are not even mentioned in a Client's governing documents and/or Management Agreement (as applicable) if Caerus, in its discretion, finds the new activity or instrument appropriate for the Client.

### **Risks of Loss**

**Clients should understand that all investment strategies and the investments made when implementing those investment strategies involve risk of loss and Clients should be prepared to bear the loss of assets invested. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a Client's investments fluctuates due to market conditions and other factors. The investment decisions made and the actions taken for Clients accounts are subject to various market, liquidity, currency, economic and political risks, and will not necessarily be profitable. Past performance of Clients accounts is not indicative of future performance.**

Investing with Caerus involves a high degree of risk for the Client and is suitable only for persons having substantial financial resources who understand the long-term nature, the consequences, and the risks associated with the investment strategy. There can be no assurance that Caerus' investment program will be profitable or that any particular Client will not incur losses in its account. The risks discussed below are those that Clients may be exposed to directly or indirectly. Certain risks apply specifically to particular investment strategies or investments in different types of securities or other investments that a Client (and its investors/beneficial owners) should be prepared to bear. Client investments entail a number of risks. There can be no assurance that a Clients' investment program will prove successful, and certain investment practices can, in some circumstances, potentially increase any adverse impact on the Clients' investment portfolios. Caerus' risk management approach seeks to isolate and mitigate, not eliminate, risk and there may be certain risks that Caerus determines should not or cannot be hedged against. Accordingly, Caerus' activities could result in substantial losses under certain circumstances. Investing in securities involves risk of loss that investors should be prepared to bear. The risks involved will vary based on each respective investment strategy and the type of securities or other investments held in a Client's account.

### **CERTAIN RISK FACTORS**

*The following risk factors and conflicts of interest do not purport to be a complete list or explanation of all the risks and conflicts of interest associated with the strategy pursued by Caerus' Clients, Caerus' method of analysis or types of investment instruments utilized on behalf of its Clients; nor should it be inferred that each and every risk factor and conflict of interest appearing below will be applicable to every Client. Clients are advised to read the relevant governing documents and/or Management Agreement, as applicable, for a more complete description of risks and conflicts of interest.*

**Dependence on Caerus.** There can be no assurance that a Client will achieve its investment objective. Although certain of Caerus' investment professionals have participated in the management of other investment funds and accounts, the past performance of such other investment funds and accounts cannot be relied upon as an indicator of a Client's own success. Investors must rely upon the ability of Caerus and Caerus' investment professionals in identifying and implementing investments consistent with each Client's investment objective and policies. A Client's investment performance depends largely on the skill



of key personnel of Caerus. If key personnel were to leave Caerus, Caerus might not be able to find equally desirable replacements, and the performance of a Client could, as a result, be adversely affected.

***Investment Risks.*** An investment in a Fund or Client account involves a high degree of investment risk, including the risk that the entire amount invested may be lost. A Client will invest in securities using strategies and financial techniques with significant risk characteristics. No guarantee is made that the investment objectives will be realized. There is no guarantee that a Client will be able to control investment risks or that the risks will not aggregate in a manner adverse to a Client. The risks associated with particular investments include, but are not limited to, the risks outlined in the following paragraphs.

***Financial Market Fluctuations.*** General fluctuations in the market prices of securities and economic conditions generally, particularly of the type experienced since 2008, may reduce the availability of attractive investment opportunities for a Client and may affect such Client's ability to make investments and the value of the investments held by such Client. Instability in the securities markets and economic conditions generally may also increase the risks inherent in a Client's investments. The public securities markets have seen increased volatility and the ability of companies to obtain financing for ongoing operations or expansions may be severely hampered by the tightening of the credit markets and the ongoing financial turmoil and uncertainty. The repercussions of this market turmoil are unclear. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) will have a positive or negative effect on market conditions. There can be no assurance that the market will, in the future, become more liquid than it is at present, and it may well continue to be volatile for the foreseeable future. The ability to realize investments in an effective manner depends not only on companies in the investment portfolio of a Client and their historical results and prospects, but also on political, market, and economic conditions at the time of such realizations. The trading market, if any, for the securities of any company in the investment portfolio of a Client may not be sufficiently liquid to enable a Client to sell these securities when Caerus believes it is most advantageous to do so, or without adversely affecting the stock price. Continued or renewed volatility in the financial sector may have an adverse material effect on the ability of a Client to buy, sell, and partially dispose of a company in its investment portfolio. A Client may be adversely affected to the extent that it seeks to dispose of any of its portfolio investments into an illiquid or volatile market, and a Client may find itself unable to dispose of investments at prices that Caerus believes reflect the fair value of such investments. The duration and ultimate effect of current market conditions and whether such conditions may worsen cannot be predicted. The ability of companies in the investment portfolio to refinance debt securities may depend on their ability to sell new securities in the public high yield debt market or otherwise.

***Equity Risk.*** The market price of securities owned by a Client may go up or down, sometimes rapidly or unpredictably. Clients are subject to the risk that the equity securities in each of their portfolios will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions, which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment generally. Such values may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding





taxes on dividend or interest payments and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which Caerus believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame Caerus anticipates. As a result, a Client may lose all or substantially all of its investment in any particular instance.

***Lack of Liquidity in Markets.*** The markets for some securities may be thinly traded from time to time. This lack of liquidity and market depth could disadvantage a Client, both in the realization of the quoted prices and in the execution of orders at desired prices or in desired quantities. Also, securities exchanges and the SEC have authority to suspend trading in a particular security without notice.

***Concentration of Investments.*** Subject to applicable limitations in the governing documents and/or Management Agreement, as applicable, Caerus expects its Clients' portfolios to be relatively concentrated. Any such lack of diversification would increase the risk of loss to a Client if there were a decline in the market value of any security or sector in which such Client had invested a large percentage of its assets. Investment in a "non-diversified" portfolio will generally entail greater risks than investments in a "diversified" portfolio.

***Investment in Small Companies.*** There is generally no limitation on the size or operating experience of the companies in which a Client may invest. Some small companies in which a Client may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small actors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

***Significant Positions in Securities; Regulatory Requirements.*** In the event a Client acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, the Client may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Client and Caerus. Any such requirements may impose additional costs on the Client and may delay the acquisition or disposition of the securities or the Client's ability to respond in a timely manner to changes in the markets with respect to such securities. In addition, "position limits" may be imposed by various regulators that may limit a Client's ability to effect desired trades. Position limits are the maximum amounts of gross, net long, or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that a Client's position limits were aggregated with an affiliate's position limits, the effect the Client and resulting restriction on its investment activities may be significant. If at any time positions managed by Caerus were to exceed applicable position limits, Caerus would be required to liquidate positions, which might include positions of a Client, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, a Client might have to forego or modify certain of its contemplated trades. In addition, if a Client, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Client may be subject to certain additional reporting





requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Client will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions

***Investment in Illiquid Securities.*** While Clients are expected to hold liquid investments, Caerus may invest in private or restricted securities or investments (as determined by Caerus in its sole discretion). Assets and liabilities for which no market prices are available will generally be carried on the books of a Client at fair value in accordance with Generally Accepted Accounting Principles ("GAAP"), unless otherwise determined by Caerus. There is no guarantee that such valuation will represent the value that will be realized by the Client on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. Illiquid assets that a Client may invest in include privately placed securities that are not registered under the Securities Act, and may have little or no trading market. In addition, a Client may not be able to readily dispose of such investments, and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. These limitations on liquidity of a Client's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

***Geographic Concentration.*** The primary geographic focus of a Client's investments will be in the United States, although Caerus may also pursue international investments (subject to any limitations in the applicable governing documents and/or Management Agreement and relevant jurisdictions) international investments. There will generally be no limitation on the level of concentration of U.S. investments. Targeting a specific geographical area could hurt a Client's performance or cause such performance to be more volatile than a more geographically diversified Client.

***Investment in Non-U.S. Securities.*** Caerus may invest from time to time in non-U.S. securities. Such investments may be subject to a greater risk than U.S. investments due to non-U.S. economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities, and other factors beyond the control of Caerus. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting, reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which a Client may invest have substantially less volume than those in the United States, and securities of certain companies in these countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries, there are restrictions on investments or investors such that the only practicable way for a Client to invest in such markets is by entering into swaps or other derivative transactions with a prime broker or other intermediaries or counterparties. Such transactions involve counterparty risks that are not present in the case of direct investments and that Caerus may not be able to control. Investments in companies with significant operations in emerging markets will be subject to all of



the risks detailed above, as well as to various other risks that cannot currently be predicted with precision. Additionally, owing to the less developed political systems and markets often in place in emerging markets, the risks described above may be more pronounced with respect to a Client's investment in emerging markets than with respect to investments in other international markets. For example, any such investments may be subject to a greater risk of expropriation, confiscatory taxation, nationalization, or political, economic or social instability than present in more developed markets. In comparison to securities markets in more developed countries, securities markets in developing countries may be substantially less liquid, and may have greater volatility, greater fluctuations in the rate of exchange between currencies, and greater costs associated with currency conversions. Any of these factors could cause Caerus not to pursue certain investments or to alter certain activities or liquidate certain investments prior to or after the time when Caerus would otherwise prefer to liquidate such investments, and such factors may cause losses or have other negative impacts on a Client or its investments.

***Currency Exchange Risk.*** Non-U.S. investments may be denominated in, or linked to, currencies other than the U.S. dollar. Currency exchange rates can be volatile and affected by, among other factors, the general economics of a country, the actions of governments or central banks, and the imposition of currency controls and speculation. A Client may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between such currencies and the U.S. dollar. A change in the value of a non- U.S. currency relative to the U.S. dollar will result in a corresponding change in the U.S. dollar value of the Client's assets denominated in that non-U.S. currency. Caerus may enter into transactions (including currency swaps, forward currency exchange contracts, currency futures, and options on currencies and futures) to hedge against currency exchange risk, but Caerus is not obligated to do so. Additionally, suitable hedging transactions may not be available in all circumstances, or such transactions may not be successful and may eliminate any chance for a Client to benefit from favorable fluctuations in relevant currencies.

***Market Disruption and Geopolitical Risk.*** A Client is subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Client's investments. Those events, as well as other changes in U.S. and non-U.S. economic and political conditions, also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of a Client's investments. At such times, a Client's exposure to a number of other risks described elsewhere in this section can increase.

***Portfolio Turnover.*** Caerus has not set a limit on the rate of portfolio turnover for any Client, and portfolio investments held by a Client may be sold without regard to the length of time they have been held when, in the opinion of Caerus, investment considerations warrant such action. This could result in frequent trading. A high rate of portfolio turnover involves correspondingly greater expenses, leads to greater brokerage and other transaction costs, may reduce a Client's investment gains, may create a loss for investors and may result in taxable costs for investors, depending on the tax provisions applicable to such investors.

***Short Sales.*** Caerus may strategically make short sales of investment securities on behalf of a Client to hedge certain risks or capitalize on market misunderstandings of fundamentals, such as flawed business models or poor company management. In a short sale, the seller sells a security that it does not own,



typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, Caerus typically engages in short sales only where it believes the value of the security will decline, or will underperform relative to another security or group of securities in its portfolio, between the date of the sale and the date a Client is required to return the borrowed security, or for hedging purposes. Short selling exposes a Client to the risk of liability for the market value of the security that is sold, which in certain circumstances is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and Caerus may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. Any of these factors could make Caerus unable to execute a particular investment strategy.

In the past, the SEC has adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and may adopt rules requiring public disclosure in the future. In addition, other jurisdictions in which Caerus may trade have adopted reporting rules for short sales and short positions. If a Client’s short positions or its strategy become generally known, it could have a significant effect on Caerus’ ability to implement its investment strategies for such Client. In particular, it would make it more likely that other investors could cause a “short squeeze” in the securities held short by a Client forcing a Client to cover its positions at a loss. In addition, if other investors engaged in copycat behavior by taking positions in the same issuers as a Client, the cost of borrowing securities to sell short could increase drastically, and the availability of such securities to such Client could decrease drastically. Such events could make Caerus unable to execute its investment strategy. The SEC has adopted restrictions on the short sales of securities that fall more than ten percent in a given day (referred to as the “circuit breaker” or “modified uptick” rule). Such events and these and other restrictions on Caerus’ ability to engage in short sales could make Caerus unable to execute its investment strategy and cause losses to a Client.

The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases, have adopted) bans on short sales of certain securities in response to recent market events. Bans on short selling may make it impossible for Caerus to execute certain investment strategies on behalf of a Client and may have a material adverse effect on its ability to achieve its investment objective and generate returns.

**Leverage.** Caerus has the power to cause certain Clients to borrow and may do so when it deems it necessary or advisable to provide efficient portfolio management or, in unusual circumstances, to take advantage of investment opportunities. Caerus also may cause certain Clients to borrow when Caerus deems it appropriate to meet withdrawal requests, which would otherwise result in the premature liquidation of investments. Leverage increases returns if a Client earns a greater return on investments purchased with borrowed funds than such Client’s cost of borrowing. However, the use of leverage exposes a Client to additional risks, including (i) greater losses from investments than would otherwise have been the case had such Client not borrowed to make the investments; (ii) margin calls or interim margin requirements that may force premature liquidations of investment positions; and (iii) losses on investments where the investment fails to earn a return that equals or exceeds such Client’s cost of borrowing. In the event of a



sudden, precipitous drop in value of a Client's assets, such Client may not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by such Client.

***Derivatives and Counterparty Risks.*** Caerus may utilize swaps, options and other derivative transactions to some degree where it believes it will further the objectives of a Client. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose a Client to unlimited risk of loss. Swaps may be used as an alternative to futures contracts. To the extent a Client invests in repos, swaps, forwards, futures, options and other "synthetic" or derivative instruments, counterparty exposures can develop, and such Client bears the risk of nonperformance by the other party to the contract. This risk may differ materially from those entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. In the international securities markets, the existence of less mature settlement structures and systems can result in settlement default and exposure to counterparty credits. In addition, the U.S. government has enacted legislation that includes provisions for new regulation of the derivatives market, including new clearing, margin, reporting, and registration requirements. Because the legislation leaves much to rule making (and many of the rules are not yet final), its ultimate impact remains unclear. In addition, the regulatory changes could, among other things, restrict Caerus' ability to engage in derivatives transactions and/or increase the costs of such derivatives transactions (including through increased margin requirements), and a Client may be unable to execute its investment strategy as a result. Additionally, the new requirements may result in increased uncertainty about counterparty credit risk. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. A Client may only close out a swap or contract for differences with the consent of the particular counterparty, may only transfer a position with the consent of the particular counterparty, and following transfer of a position, may only close out the transaction with the new counterparty. Also, if the counterparty defaults, a Client will have contractual remedies pursuant to the agreement related to the transaction, but there is no assurance that contract counterparties will be able to meet their obligations pursuant to such contracts or that, in the event of default, the Client will succeed in enforcing its contractual remedies. There also may be documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract. If such a dispute occurs, the cost and unpredictability of the legal proceedings required to enforce its contractual rights may lead a Client to decide not to pursue its claims against the counterparty. Such Client thus assumes the risk that it may be unable to obtain payments owed to it under swap contracts, over-the-counter options, and other two-party contracts, or that those payments may be delayed or made only after a Client has incurred the costs of litigation.

Counterparty risk may be further complicated by recently enacted U.S. financial reform legislation which includes provisions for new clearing, margin, and reporting requirements for derivatives transactions and new restrictions on the types of derivatives transactions that can be entered into by certain financial companies. The ultimate impact of these regulatory changes remains unclear because much is left to rule making by the Commodity Futures Trading Commission ("CFTC") and the SEC; however, these new requirements could mean that a Client will face less creditworthy counterparties on certain derivatives transactions. Also, the new legislation may limit the flexibility of a Client to protect its interests in the event of insolvency of a derivatives counterparty, because of powers granted to clearinghouses and to the



Federal Deposit Insurance Corporation to limit or delay close-out of derivatives positions of insolvent clearing members or financial companies and to transfer such positions to other entities.

Certain derivatives transactions that may be used by a Client, including certain interest rate swaps and credit default index swaps, are required to be cleared. In a cleared derivatives transaction, a Client's counterparty to the transaction is a central derivatives clearing organization, or clearing house, rather than a bank or broker. Because the Clients are not members of a clearing house, and only members of a clearing house can participate directly in the clearing house, the Clients will hold cleared derivatives transactions through accounts at clearing members, who are futures commission merchants who are members of the clearing houses. A Client will make and receive payments owed under cleared derivatives transactions (including margin payments) through its accounts at clearing members. A Client's clearing members guarantee a Client's performance of its obligations to the clearing house. In contrast to bilateral derivatives transactions, following a period of advance notice to a Client, clearing members can generally require termination of existing cleared derivatives transactions at any time and increase the amount of margin required to be provided by a Client to the clearing member for any cleared derivatives transaction above the amount of margin that was required at the beginning of the transaction. Any such termination or increase could interfere with the ability of a Client to pursue its investment strategy. Also, a Client is subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or which Caerus expects to be cleared), and no clearing member is willing to clear the transaction on a Client's behalf. In that case, the transaction might have to be terminated, and a Client could lose some or all of the benefit of any increase in the value of the transaction after the time of the trade.

***Fixed-Income Securities.*** While Caerus' strategies focus primarily on investing in equity securities, a Client may (subject to any applicable guidelines and/or restrictions (as applicable)) invest in bonds or other fixed-income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. Such securities may be below "investment grade" and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated 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; lower-rated debt securities also tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue lower-rated debt securities often are highly leveraged and may not have access to more traditional methods of financing. Trading in such securities may be limited or disrupted by an economic recession, resulting in an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could affect adversely the ability of the issuers of such securities to repay principal and pay interest thereon and, therefore, increase the incidence of default for such securities.

***Options.*** Caerus may cause a Client to invest in options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities interest becomes restricted. Unlike exchange-traded options, which





are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of over-the-counter options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows Caerus greater flexibility to tailor an option to a Client's needs, over-the-counter options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

***Futures and Related Options.*** Caerus has the ability, to the extent permitted by applicable law and any relevant investment restrictions, to buy and sell futures contracts and related options on behalf of a Client at any time. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. A Client may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income. The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in a Client's portfolio that are the subject of the hedge (to the extent a Client uses futures and options for hedging purposes). The successful use of futures and options further depends on a Client's ability to forecast market or interest rate movements correctly. Other risks arise from a Client's potential inability to close out its futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit a Client's ability to engage in futures and options transactions.

***Other Instruments and Future Developments.*** Caerus may take advantage of opportunities in the area of swaps, options on various underlying instruments and swaptions and certain other customized synthetic or derivative investments in the future. In addition, Caerus may take advantage of opportunities with respect to certain other synthetic or derivative instruments that are not presently contemplated for use by a Client or that are currently not available, but which may be developed to the extent such opportunities are both consistent with such Client's investment objective and legally permissible. As a result of such practices, special risks may apply to a Client's investments in the future.

***Cash and Other Investments.*** Caerus may cause a Client may invest all or a portion of its assets in cash or cash items, in whole or in part, for investment purposes, pending other investments or as provision of margin for futures or forward contracts. These cash items are generally of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by Caerus. While these investments generally involve relatively low risk levels, they may produce lower than expected returns and could result in losses.

***Fundamental Analysis.*** Certain strategies pursued by Caerus may require the use of fundamental analysis. Fundamental analysis is premised on the assumption that markets are not perfectly efficient, that



informational advantages and mis-pricings do occur and that econometric analysis can identify trading opportunities. Fundamental factors include inflation, trade balances, inventories, and interest rates, all factors extrinsic to the market. Fundamental analysis may incur substantial losses if such economic factors are not correctly analyzed, not all relevant factors are identified and/or market forces cause mis-pricings to continue despite the traders having correctly identified such mis-pricings. Fundamental analysis may also be more subject to human error and emotional factors than technical analysis.

**Cybersecurity.** The computer systems, networks and devices used by Caerus and its various service providers to carry out routine business operations (including investment advisory services) employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons, and security breaches. Despite the various protections utilized, systems, networks, or devices potentially can be breached. A Client and its investors could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks, or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a Client; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; as well as the inadvertent release of confidential information. Similar adverse consequences could result from cybersecurity breaches affecting companies or issuers of securities in which a Client invests; trading counterparties and prime brokers utilized by the Client; exchange and other financial market operators; administrators; auditors; and other parties. In addition, substantial costs may be incurred by these entities in order to prevent any cybersecurity breaches in the future.

**Legal and Regulatory Changes.** Legal, tax and regulatory changes could occur that may adversely affect a Client. New (or revised) laws or regulations or interpretations of existing laws may be issued by the Internal Revenue Service (“IRS”), the CFTC, the SEC, the Federal Reserve or other banking regulators, or other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect a Client. A Client also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations. For example, there has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry. It is impossible to predict what, if any, changes in regulations may occur, but any regulation that restricts the ability of a Client to trade in securities could have a material adverse impact on a Client’s performance.

In addition, the securities and futures markets are subject to comprehensive statutes, regulations, and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, other regulators, and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of securitization and derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

In addition, the U.S. government has enacted legislation that provides for new regulation of the derivatives market, including clearing, margin, reporting, and registration requirements. The CFTC, SEC and other federal regulators have been tasked with developing the rules and regulations enacting the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The European Union (and some other





countries) are implementing similar requirements that will affect a Client when it enters into derivatives transactions with a counterparty organized in that country or otherwise subject to that country's derivatives regulation. The U.S. government and the European Union have adopted mandatory minimum margin requirements for bilateral derivatives. Such requirements could increase the amount of margin required to be provided by a Client in connection with its derivatives transactions and, therefore, make derivatives transactions more expensive. While certain of the rules are effective, other rules are not yet final and/or effective, so their ultimate impact remains unclear.

The CFTC and certain futures exchanges have established limits, referred to as "position limits," on the maximum net long or net short positions which any person or entity may hold or control in particular options and futures contracts. The CFTC has proposed position limits for certain swaps. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if a Client does not intend to exceed applicable position limits, it is possible that different clients managed by Caerus and its affiliates may be aggregated for this purpose. Although it is possible that the trading decisions of Caerus may have to be modified and that positions held by a Client may have to be liquidated in order to avoid exceeding such limits, Caerus believes that this is unlikely. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the profitability of a Client. The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain *de minimis* threshold and may adopt rules requiring monthly public disclosure in the future. In addition, other non-U.S. jurisdictions where a Client may trade have adopted reporting requirements. If a Client's short positions or its strategy become generally known, it could have a significant effect on Caerus' ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a "short squeeze" in the securities held short by a Client forcing a Client to cover its positions at a loss. Such reporting requirements may limit Caerus' ability to access management and other personnel at certain companies where Caerus seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as a Client, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to a Client could decrease drastically. Such events could make a Client unable to execute its investment strategy. Short sales are also subject to certain SEC regulations. If the SEC were to adopt additional restrictions regarding short sales, they could restrict a Client's ability to engage in short sales in certain circumstances, and a Client may be unable to execute its investment strategy as a result.

The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases, have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for a Client to execute certain investment strategies and may have a material adverse effect on a Client's ability to generate returns.

**Regulatory Risk.** There can be no assurance that Caerus or its Clients or any of their respective affiliates will avoid regulatory examination or enforcement actions. Even if an investigation or proceeding does not result in a sanction being imposed against Caerus or its Clients or any of their respective affiliates or such sanction is small in monetary amount, Caerus, its Clients and/or their respective affiliates may be subject to adverse publicity relating to the investigation, proceeding or imposition of such sanctions. There is also a risk that regulatory agencies in the United States and abroad will continue to adopt, change or enhance new or existing laws or regulations, which may result in additional regulatory scrutiny.



***Cybersecurity and Electronic Systems Risk.*** Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. Caerus increasingly relies upon information and technology systems to conduct its business. Such systems might, in some circumstances, be subject to cybersecurity incidents or similar events that could potentially result in damage or interruption to these systems, unauthorized access to sensitive transactional and personal information, intentional misappropriation, corruption or destruction of data, or operational disruption. Cybersecurity incidents could potentially occur, and might in some circumstances result in the failure to maintain the security, confidentiality or privacy of sensitive data. Cybersecurity incidents experienced by third party vendors or service providers may indirectly affect Caerus' Clients. Cybersecurity risks can disrupt the ability to engage in transactional business, cause direct financial loss and affect the value of assets in which Caerus' Clients invest, harm Caerus' reputation, lead to violations of applicable laws, result in ongoing prevention, risk management and compliance costs, and otherwise affect business and financial performance.

***Conflicts of Interest.*** Caerus advises multiple Clients whose accounts may purchase or sell the same securities. Caerus is not under any obligation to share any investment opportunity, idea or strategy with any particular Client. As a result, other Clients of Caerus may compete with one another for appropriate investment opportunities. Caerus may make recommendations to and take actions on behalf of certain Clients, which may be the same as or different from those made or taken on behalf of another Client. Caerus may from time to time acquire positions in or transact in securities and other investments on behalf of a Client which may differ from or be inconsistent with the advice given, or the timing or nature of Caerus' action or actions with respect to another Client. Caerus' investment allocations are designed to provide a fair allocation of purchases and sales of securities among the various Clients managed by Caerus, while preserving incentives for Caerus to find new investment opportunities, and to ensure compliance with appropriate regulatory requirements.

Caerus and its affiliates have the ability to trade in financial instruments for their own accounts and Caerus may act as an investment adviser to managed accounts of a related person. This may on occasion create conflicts of interest with regard to such matters as allocation of opportunities to participate in particular investments or to dispose of certain investments. In addition, if as a result of the aggregation requirements set forth under the law, applicable position limits were exceeded, Caerus, or its respective affiliates could have a conflict of interest in determining which positions to liquidate.

By reason of the investment advisory and other activities of its affiliates, Caerus may acquire confidential information or otherwise be restricted from initiating transactions in certain securities. It is acknowledged and agreed that, except as required by the applicable law, Caerus may not be free to divulge, or to act upon, any such confidential information and that, due to such a restriction, Caerus may not initiate certain transactions Caerus otherwise might have initiated. It is further acknowledged and agreed that Caerus shall, for itself and on behalf of its Clients, disclose such information to governmental and regulatory authorities as may be required by law.



From time to time, Caerus may permit certain Client investors to acquire interests on different terms than other investors (including, without limitation, with respect to minimum investment amounts, fees, expanded reporting and withdrawal terms). Caerus is not required to notify any or all of the other investors of any such terms, nor is the Client or Caerus required to offer such additional and/or different rights and/or terms to any or all of the other investors.

Please refer to the relevant Client governing documents and/or Management Agreement, as applicable for a more detailed discussion of risk factors and conflicts of interest.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL OF THE INVESTMENT RISKS CAERUS AND ITS CLIENTS ARE EXPOSED TO AS A PART OF CAERUS' BUSINESS.**



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## Item 9 Disciplinary Information

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This Item requests information relating to legal and disciplinary events in which Caerus or any supervised persons, as defined by the Advisers Act, have been involved that are material to Client's or prospective Client's evaluations of Caerus' advisory business or management. There are no reportable material legal or disciplinary events related to Caerus or any of its supervised persons. In the ordinary course of Caerus' business, Caerus and its employees have not in the past been subject to any formal or informal regulatory inquiries, subpoenas, investigations, legal or regulatory proceedings involving the SEC, or any other regulatory authorities, including private parties and self-regulatory organizations (SRO).



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

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### **Affiliated Broker-Dealers**

Caerus and its affiliates are not registered, nor do Caerus and its affiliates have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Caerus has no existing or pending affiliations with a broker-dealer or a registered representative of a broker-dealer.

### **Affiliated CPO and/or CTA**

Caerus and its affiliates are not registered, nor do Caerus and its affiliates have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. Caerus has no existing or pending affiliations with a futures commission merchant, commodity pool operator, a commodity trading advisor.

### **Relationship or Arrangements with Affiliates and/or Related Persons**

Neither Caerus, nor its principals or any executive officer have any relationship or arrangement with a related person that is material to its advisory business or its Clients or could create a material conflict of interest with Clients.

### **Other Activities and Affiliations**

Caerus may from time to time engage third-parties to provide certain consulting and strategic advisory services with respect to Caerus. In consideration of such services, Caerus may provide office space, administrative support, and other benefits to such persons.

### **Conflicts Related to Affiliations and Other Legal Restrictions**

Caerus may be restricted by law, regulation, or contract as to how much of a particular security it may invest on behalf of a Client, and as to the timing of a purchase or sale. For example, holdings of a security on behalf of Caerus' Clients may, under some SEC or state regulations, be aggregated with the holdings of that security by its affiliates. These holdings, on an aggregate basis, could exceed certain regulatory reporting thresholds unless Caerus, as well as its affiliates, monitor and restrict additional purchases.



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## Item 11 Code of Ethics

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Caerus maintains a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the SEC, and has adopted policies and procedures described in its Code of Ethics. The Code of Ethics has been adopted by Caerus in compliance with Section 204A of the Advisers Act and Rule 17j-1 under the 1940 Act. The Code of Ethics applies to each employee of Caerus and any other “access person” as defined under the Advisers Act. It is designed to ensure compliance with legal requirements of Caerus’ standard of business conduct.

A complete copy of Caerus’ code of ethics (“Code of Ethics”) is available to any Client or prospective Client upon request.

The Code of Ethics is based upon the premise that all Caerus personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory services. The Code of Ethics requires all personnel to: (i) comply with all applicable laws and regulations; (ii) observe all fiduciary duties and put Client interests ahead of those of Caerus; (iii) observe Caerus’ personal trading policies so as to avoid “front-running” and other conflicts of interests between Caerus and its Clients; and (iv) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by Caerus’ Chief Compliance Officer, and that personnel who violate the Code of Ethics are subject to sanctions by Caerus, up to and including termination.

**Standards of Conduct:** Caerus and its access persons are expected to comply with all applicable federal and state laws and regulations. Access persons are expected to adhere to the highest standards of ethical conduct and maintain confidentiality of all information obtained in the course of their employment and bring any risk issues, violations, or potential violations to the attention of the Chief Compliance Officer. Access persons are expected to deal with Clients fairly and disclose any activity that may create an actual or potential conflict of interest between them and Caerus or Client.

**Ethical Business Practices:** Falsification or alteration of records or reports, also known as a prohibited financial practice, or knowingly approving such conduct is prohibited. Payments to government officials or government employees are prohibited except for political contributions approved by Caerus’ Chief Compliance Officer or his designee. Caerus seeks to outperform its competition fairly and honestly and seeks competitive advantages through superior performance not illegal or unethical dealings. Access persons are strictly prohibited from (i) participating in industry-related online blogging and communication with the media, unless approved by the Chief Compliance Officer, and (ii) spreading of false rumors pertaining to any publicly traded company.

**Confidentiality:** Employees must maintain the confidentiality of Caerus’ proprietary and confidential information and must not disclose that information unless the necessary approval is obtained. Caerus has a particular duty and responsibility, as an investment adviser, to safeguard Client information. Information concerning the identity and transactions of investors is confidential, and such information will only be disclosed to those employees and outside parties who may need to know it in order to fulfill their responsibilities.



**Gift and Entertainment Policy:** Access persons shall not, directly or indirectly, take, accept or receive gifts or other consideration in merchandise, services, or otherwise of more than nominal value from any person, firm, corporation, association, or other entity other than such person's employer that does business, or proposes to do business, with Caerus or any of its affiliates.

### **Personal Trading**

**Personal Trading Policy:** Access persons are allowed to trade reportable securities, however all transactions in reportable securities must be pre-approved by the Chief Compliance Officer or his designee. Access persons may not purchase or otherwise acquire direct or indirect beneficial ownership of any reportable security, and may not sell or otherwise dispose of any reportable security in which he or she has direct or indirect beneficial ownership, if he or she knows or should know at the time of entering into the transaction that: (i) a Client has purchased or sold the reportable security within the last five (5) trading days, or is purchasing or selling or intends to purchase or sell the reportable security in the next five (5) trading days; or (ii) Caerus has within the last five (5) trading days considered purchasing or selling the reportable security for any Client or within the next five (5) trading days intends to consider purchasing or selling the reportable security for any Client. Access persons must obtain approval from the Chief Compliance Officer or his designee before directly or indirectly acquiring beneficial ownership in any securities in an initial public offering or in a limited offering (including, private placements). Access persons who violate the personal trading policy are reprimanded in accordance with the sanctions provisions outlined in the Code of Ethics. Personal securities transactions are reviewed by the Chief Compliance Officer or his designee for compliance with the personal trading policy and applicable SEC rules and regulations.

No access person shall recommend any transaction in any reportable securities by Clients without having disclosed to the Chief Compliance Officer his or her interest, if any, in such reportable securities or the issuer thereof, including: (i) the access person's beneficial ownership of any reportable securities of such issuer; (ii) any contemplated transaction by the access person in such reportable securities; (iii) any position the access person has with such issuer; and (iv) any present or proposed business relationship between such issuer and the access person (or a party in which the access person has a significant interest).

**Prohibition against Insider Trading:** Caerus forbids any access person from trading, either personally or on behalf of others, including Clients advised by Caerus, on material non-public information or communicating material non-public information to others in violation of the law or duty owed to another party. This conduct is frequently referred to as "insider trading". The concepts of material non-public information, penalties for insider trading, and processes for identifying insider trading are addressed in detail in the Compliance Manual and Code of Ethics.

**Reporting Requirements:** In compliance with SEC rules, access persons are required to disclose all of their personal brokerage accounts and holdings within ten (10) days of initial employment with Caerus, within ten (10) days after the end of each calendar quarter of opening a new account, and annually thereafter. Additionally, the last day of the month following each quarter-end, all access persons must report all transactions in reportable securities over which the access person had any direct or indirect beneficial ownership. Access persons are also required annually to affirm all reportable transactions from the prior year.





## **Privacy and Confidentiality**

**Privacy Policy:** Caerus has adopted a privacy policy that explains the manner, in which Caerus collects, utilizes and maintains nonpublic personal information about Clients and Clients' investors. Caerus recognizes and respects the privacy concerns of potential, current and former Clients, and Clients' investors. Caerus is committed to safeguarding this information. As a member of the financial services industry, Caerus will provide this Privacy Policy for informational purposes to Clients, Clients' investors, and employees and will distribute and update it as required by law. A complete copy of Caerus' Privacy Policy is available to any Client or prospective Client upon request.

**Collection of Information and Disclosure of Nonpublic Personal Information:** To provide investors with effective service, Caerus may collect several types of nonpublic personal information about investors, including: (i) information from forms that investors may fill out, such as subscription forms, questionnaires, and other information provided by investors in writing, in person, by telephone, electronically, or by any other means. This information includes name, address, nationality, tax identification number, and financial and investment qualifications; (ii) information investors may give orally; (iii) information about transactions within Caerus, including account balances, investments, and withdrawals; (iv) information about the amount investors have invested, such as initial investment and any additions to and withdrawals from an investment in the Clients; and (v) information about any bank accounts investors may use for transfers to or from accounts (if applicable).

**Disclosure of Nonpublic Personal Information:** Caerus does not sell or rent Client investor information. Caerus uses this information to conduct business with its Clients: to develop or enhance its products and services; to understand the financial needs of its Clients so that Caerus can provide such Clients with quality products and superior service; and to protect and administer its Clients' records, accounts, and funds. Caerus does not disclose nonpublic personal information about its investors to nonaffiliated third parties, except as permitted or required by law. For example, Caerus may share nonpublic personal information in the following situations: (i) to service providers in connection with the administration and servicing of Caerus and its Clients; this may include attorneys, accountants, auditors, and other professionals. Caerus may also share information in connection with the servicing or processing of investor transactions; (ii) to affiliated companies in order to provide investors with ongoing personal advice and assistance with respect to the products and services investors have purchased through Caerus and to introduce investors to other products and services that may be of value to such investors; (iii) to respond to a subpoena or court order, judicial process or regulatory authorities; (iv) to protect against fraud, unauthorized transactions (such as money laundering), claims, or other liabilities; and (v) upon consent of an investor to release such information, including authorization to disclose such information to persons acting in a fiduciary or representative capacity on behalf of the investor.

**Protection of Client Information:** Caerus' policy is to require that all employees, financial professionals, and companies providing services on its behalf keep Client and investor information confidential. Caerus maintains safeguards that comply with federal standards to protect Client and investor information. Caerus restricts access to the personal and account information of Clients and investors to those employees who need to know that information in the course of their job responsibilities. Third-parties with whom Caerus shares Client or investor information must agree to follow appropriate standards of security and confidentiality. Caerus' privacy policy applies to both current and former Clients and investors. Caerus may disclose nonpublic personal information about a former Client to the same extent as for a current Client.



**Changes to Privacy Policy:** Caerus may make changes to its privacy policy in the future. Caerus will not make any change affecting any Client without first sending to that Client a revised privacy policy describing the change.

### **Potential Conflicts of Interest**

Caerus, its affiliates and their respective officers, directors, trustees, stockholders, members, partners, and employees and their respective funds and investment accounts (collectively, the “*Related Parties*”) engage in a broad range of activities, including activities for their own account and for the accounts of Clients. This section describes various potential conflicts that may arise in respect of the Related Parties, as well as how such conflicts of interest are addressed. The discussion below does not describe all conflicts that may arise.

Any of the foregoing potential conflicts of interest will be discussed and resolved on a case by case basis. Caerus’ determination as to which factors are relevant, and the resolution of such conflicts, will be made using its best judgment, but in Caerus’ sole discretion. In resolving conflicts, Caerus will take into consideration the interests of the relevant Clients, the circumstances giving rise to the conflict, and applicable laws. Certain procedures for resolving specific conflicts of interest are set forth below.

**Allocation of Investment Opportunities:** Caerus acts as investment adviser to more than one Client that may have similar investment objectives and pursue similar strategies. Certain investments identified by Caerus may be appropriate for multiple Clients. When it is determined by Caerus that it would be appropriate for more than one Client to participate in an investment opportunity, Caerus will generally allocate such investment *pro rata* among the participating Clients in proportion to the relative total market value of each participating Client’s portfolio on a pre-trade basis, taking into account such other factors as it may, in its sole discretion determine appropriate. Such factors in determining how an investment opportunity is allocated may include, but are not limited to, the following considerations: (i) investment objectives, guidelines, and restrictions of the Client, including any limitations and restrictions on a Client’s portfolio that are imposed by such Client’s governing documents; (ii) regulatory restrictions or legal contractual requirements; (iii) the size, nature, and type of investment; (iv) current holdings, targeted asset mix, or diversification requirements; (v) the availability of capital for investment (*i.e.*, cash position) or the size of a Client’s portfolio; (vi) pre-determined tactical plan of a Client or Clients and corresponding capital commitments; (vii) minimum trade denominations; (viii) target investment return; (ix) risk-return considerations; (x) risk tolerance of the Client; (xi) relative exposure to market trends; (xii) tax consequence; (xiii) targeted leverage level; (xiv) strategic objectives; (xv) specific liquidity requirements or liquidity needs or constraints of the Client; (xvi) determination by the Investment Committee that the investment or sale opportunity is inappropriate, in whole or in part, for one or more of the Clients; or (xvii) other considerations that Caerus deems necessary or appropriate in light of the circumstances at such time. In addition, if it is fair and reasonable that certain Clients are fully filled of their appetite before others (*e.g.*, for tax considerations, to avoid *de minimis* partial allocations, to cover or close out an existing position to mitigate risk or losses, etc.), then these Clients may receive full or disproportionate allocations, with the remaining amounts allocated in accordance with normal procedures among the other participating Clients. One or more of the foregoing considerations in this paragraph may (and are often expected to) result in allocations among accounts other than on a *pari passu* basis. Accordingly, particular investment may be bought or sold for only one Client or in different amounts and at different times for more than one but less than all Clients, even though it could have been bought or sold for other Clients at the same time. Likewise,



a particular investment may be bought for one or more Clients when one or more other Clients are selling the investment. In addition, purchases or sales of the same investment may be made for two or more Clients on the same date. There can be no assurance that a Client will not receive less (or more) of a certain investment than it would otherwise receive if Caerus did not have a conflict of interest among Clients.

In effecting transactions, it is not always possible, or consistent with the investment objectives of Caerus' various Clients, to take or liquidate the same investment positions at the same time or at the same prices. Certain investment restrictions may limit Caerus' ability to act for a Client and may reduce performance. Regulatory and legal restrictions (including restrictions on aggregated positions) may also restrict the investment activities of Caerus and result in reduced performance.

Caerus seeks to manage and/or mitigate these potential conflicts of interest described by following procedures with respect to the allocation of investment opportunities for its Clients, including the allocation of limited investment opportunities. Caerus' allocation policy is based on a fundamental desire to treat each Client account fairly over time.

It is Caerus' general policy to allocate investments among its Clients in a manner which it believes to be fair and equitable. Allocations of investment opportunities should not be based on any of the following, or similar, reasons: (i) to generate higher fees paid by one account over another, or to produce greater fees to Caerus; (ii) to develop a relationship with a Client or prospective Client; or (iii) to compensate a Client for past services or benefits rendered to the company or any employee of Caerus or to induce future services or benefits to be rendered to Caerus or any employee of Caerus.

Caerus' policy, where an opportunity to purchase or sell the same securities contemporaneously for multiple Clients that have similar investment objectives and pursue similar strategies, is to aggregate Client trade orders when doing so is likely to result in a better overall price or reduced cost for the Client trade. Consistent with its fiduciary duties, Caerus allocates trades to its Clients on a fair and equitable basis as set forth in its written allocation policy. Each Client who participates in an aggregated order participates at the average share price with all transaction costs shared on a *pro rata* basis pursuant to Caerus' written procedures. It is Caerus' policy that in the event an aggregated trade order for a specific security on any given day cannot be fully executed under prevailing market conditions (*i.e.*, partially filled), then the security traded should be allocated among each participating Client *pro rata* in a manner Caerus deems to be fair and equitable, by taking into account the size of the trade order placed for each participating Client and any other relevant factors.

Client directed or other restrictions may affect the allocation of an order. If a Client directed restriction is placed on a particular security or group of securities, the order will be allocated to the other participating accounts as described above.

Caerus formulates written allocation plans in the form of order memoranda based on the investment guidelines, current exposure levels of each Client, and other factors set forth above across the various Client accounts including any ERISA accounts. When a new investment is being made, Caerus allocates investment opportunities among those Clients based upon the percentages determined by the plan.



**Investment Negotiation:** In order to ensure compliance with Section 17(d) under the 1940 Act whenever an investment professional proposes to negotiate a term other than price for an investment (including any amendments), he/she must check to see if the investment (or any other position in the issuer's capital structure) is held (or proposed to be invested) in any Caerus managed pooled investment vehicle that is a registered investment company (e.g., the Mutual Funds). If the investment is held in any Caerus managed pooled investment vehicles that is a registered investment company, that person must contact the Chief Compliance Officer for guidance. The transaction is generally permitted if all accounts are in the same part of the capital structure and participate in the investment pro rata. Alternatively, Caerus may impose a "Chinese Wall" between retail/institutional investment decision-making. One person can negotiate, provided final investment decision still made separately. Caerus may also consult outside counsel for guidance.

**Position Conflicts:** Another type of conflict may arise if Caerus cause one Client account to buy a security and another Client account to sell or short the same security. Currently, such opposing positions are not permitted within the same account or within any accounts managed by the same portfolio manager without prior trade approval by the Chief Compliance Officer. In addition, transactions in investments by one or more affiliated Client accounts may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of other Client accounts.

Generally, Caerus does not purchase, sell, or hold securities on behalf of Clients contrary to the current recommendations made to other affiliated Client accounts. However, because certain Client accounts may have investment objectives, strategies or legal, contractual, tax, or other requirements that differ (such as the need to take tax losses, realize profits, raise cash, diversification, etc.), Caerus may purchase, sell, or continue to hold securities for certain Client accounts contrary to other recommendations. In addition, Caerus may be permitted to sell securities or instruments short for certain Client accounts and may not be permitted to do so for other affiliated Client accounts.

**Cross Trading:** In an effort to reduce transaction costs, increase execution efficiency, and capitalize on timing opportunities, Caerus may execute cross trades, or sell a security for one affiliated Client to another affiliated Client, without interposing a broker-dealer. All cross trades are subject to the cross-trade procedures set forth in Caerus' written policies and procedures. Cross trades, however, may present an inherent conflict of interest because Caerus and/or its affiliates represent the interest of the buyer and seller in the same transaction. As a result, Clients involved in a cross-trade bear the risk that the price obtained from a cross-trade may be less favorable than if the trade had been executed in the open market. In addition, see *Item 12 – Brokerage Practices*, Cross Trades of this Brochure for more information.

Caerus addresses these conflicts of interest by providing in its Code of Ethics that all supervised persons have a duty to act in the best interests of each Client, providing training to supervised persons with respect to conflicts of interest and how such conflicts are resolved under Caerus' written policies and procedures, and through the implementation of cross-trade policies and procedures.

**Trade Aggregation:** In some circumstances, Caerus may seek to buy or sell the same securities contemporaneously for multiple Client accounts. Caerus may, in appropriate circumstances aggregate securities trades for a Client with similar trades for other Clients but are not required to do so. In particular, Caerus may determine not to aggregate transactions that relate to portfolio management decisions that are made independently for different accounts or if Caerus determines that aggregation is not practicable, not



required, or inconsistent with Client direction. When transactions are aggregated and it is not possible, due to prevailing trading activity or otherwise, to receive the same price or execution on the entire volume of securities purchased or sold, the various prices may be averaged or allocated on another basis deemed to be fair and equitable. In addition, under certain circumstances, the Clients will not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order. The effect of the aggregation may therefore, on some occasions, either advantage or disadvantage any particular Client.

From time to time, aggregation may not be possible because a security is thinly traded or otherwise not able to be aggregated and allocated among all Client accounts seeking the investment opportunity or a Client may be limited in, or precluded from, participating in an aggregated trade as a result of that Client's specific brokerage arrangements. Also, an issuer in which Clients wish to invest may have threshold limitations or aggregate ownership interests arising from legal or regulatory requirements or company ownership restrictions, which may have the effect of limiting the potential size of the investment opportunity and thus the ability of the applicable Client to participate in the opportunity.

There are instances when circumstances specific to individual Clients will limit Caerus' ability to aggregate or allocate trades. For example, if a Client requests directed brokerage, Caerus may not be able to aggregate or allocate these trades. Additionally, as stated above, there may be times when there is limited supply or demand for a particular security or investment. In such instances, a Client may not be able to realize the efficiencies which might exist for larger transactions. In some cases, trade aggregation and/or allocation may adversely affect the price paid or received by an account or the size of the position obtained or liquidated for an account, which could cause performance divergence from similar accounts. In other cases, an account's ability to participate in volume transactions may produce better executions and prices for the account. Caerus may adjust allocations to eliminate fractional shares or odd lots, or to account for minimum trade size requirements and has the discretion to deviate from its allocation procedures in certain circumstances.

**Conflicts Related to Valuation:** Caerus may have a role in determining asset values with respect to Client accounts and may be required to price an asset when a market price is unavailable or unreliable. This may give rise to a conflict of interest because Caerus may be paid an asset-based fee on certain Client accounts. In order to mitigate these conflicts, Caerus determines asset values in accordance with valuation procedures, which are set forth in Caerus' Compliance Manual. In addition, see *Item 12 – Brokerage Practices, Security Valuation* of this Brochure for more information about Valuation.

**Conflicts Related to Investments in Affiliated Fund:** Caerus may purchase for its Clients interests in other pooled vehicles, including Funds, managed by Caerus. An investment by a Client in such a vehicle means Caerus would receive a Management Fee or other fees from the Client in addition to the Management Fee charged for managing the Client's account. In choosing between vehicles managed by Caerus and those not affiliated with Caerus, Caerus may have a financial incentive to choose affiliated vehicles over third parties by reason of additional investment management, advisory, or other fees or compensation Caerus may earn. To the extent Caerus invests a Client's assets in sponsored (affiliated) pooled investment vehicles, these assets generally will not be included as the Client's assets for purposes of calculating or charging the Client's Management Fee. The potential for fee offsets, rebates or other reduction arrangements may not necessarily eliminate this conflict and Caerus may nevertheless have a financial



incentive to favor investments in an affiliated vehicle. If Caerus invest in an affiliated vehicle, a Client should not expect Caerus to have better information with respect to that vehicle than other investors may have (and if Caerus does have better information they may be prohibited from acting upon it in a way that disadvantages other investors). Additionally, Caerus' affiliates may sponsor and manage funds and accounts that compete with Caerus or make investment with funds sponsored or managed by third-party advisers that would reduce capacity otherwise available to Caerus' Clients.

**Conflicts Related to Information Possessed by or Provided by Caerus:** Certain Related Parties may receive or create information (*e.g.*, proprietary technical models) that is not generally available to the public. Caerus has no obligation to provide such information to Clients or effect transactions for Clients on the basis of such information, and in many cases, Caerus will be prohibited from trading for the same Clients based on the information. Similarly, some Clients may have access to information regarding Related Parties' transactions or views that is not available to other Clients and may act on that information through accounts managed by persons other than Related Parties. Such transactions may negatively impact other Clients (*e.g.*, through market movements or decreasing availability or liquidity of securities).

**Information Barriers and the Restricted List:** Caerus currently operates without ethical screens or information barriers that other firms implement to separate persons who make investment decisions from others who might possess material non-public information that could influence such decisions. In an effort to manage possible risks from Caerus' decision not to implement such screens, Caerus maintains a Code of Ethics, as described herein above, and provides training to supervised persons with respect to conflicts of interest and how such conflicts are resolved under Caerus' policies and procedures. In addition, Caerus' Compliance Department maintains a list of restricted securities as to which Caerus or its affiliates may have access to material non-public information and in which Clients are not permitted to trade without prior approval from the Compliance Department. In the event that any employee of Caerus or its affiliates obtains such material non-public information, Caerus may be restricted in acquiring or disposing investments on behalf of Clients, which could impact the returns generated for Clients.

Notwithstanding the maintenance of restricted lists and other internal controls, it is possible that the internal controls relating to the management of material non-public information could fail and result in Caerus, or one of its investment professionals, buying or selling a security while potentially in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on the reputation of Caerus, result in the imposition of regulatory or financial sanctions, and as a consequence, negatively impact Caerus' ability to perform investment management services on behalf of Clients. In addition, while Caerus currently operates without information barriers on an integrated basis, Caerus could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, Caerus' ability to operate as an integrated platform could also be impaired, which would limit Caerus' access to affiliate's personnel and impair their ability to manage Clients' investments in the manner in which they currently manage investments.

**Conflicts Related to Relationships with Third Parties:** Caerus may advise third-parties regarding valuation, risk management, transition management, and potential restructuring or disposition activities in connection with proprietary or Client investments, which may create an incentive to purchase securities or other assets from those third parties or engage in related activities to bid down the price of such assets, which may have an adverse effect on a Client.





Caerus may work with pension or other institutional investment consultants and such consultants may also provide services to Caerus. Consultants may provide brokerage execution services to Related Parties and Related Parties may attend conferences sponsored by consultants. Caerus also may be hired to provide investment management or other services to a pension or other institutional investment consultant that works with a Client, which may create conflicts.

Related Parties may in-source or out-source to a third party certain processes or functions, which may give rise to conflicts. There may be conflict when negotiating with third-party service providers if Related Parties bear operational expenses of various Clients to the extent that a given fee structure would tend to place more expense on Clients for which Related Parties have a greater entitlement to reimbursement or less expense on Clients for which Related Parties have lesser (or no) entitlement to reimbursement. Related Parties may provide information about a Client's portfolio positions to unrelated third parties to provide additional market analysis and research to Related Parties and they may use such analysis to provide investment advice to other Clients.

Related Parties may purchase information (such as periodicals, conference participation, papers, or surveys) from professional consultant firms, and such firms may have an incentive to give favorable evaluations of Related Parties to their Clients.

In selecting broker-dealers that provide research or other products or services that are paid with soft dollars, conflicts may arise between Caerus and a Client because Caerus may not produce or pay for these benefits but may use brokerage commissions generated by Client transactions. Soft dollar arrangements may also give Caerus an incentive to select a broker-dealer based on a factor other than Caerus' interest in receiving the most favorable execution. Conflicts of interest related to soft dollar relationships with brokerage firms may be particularly influential to the extent that Caerus uses soft dollars to pay expenses it might otherwise be required to pay itself. Furthermore, research or brokerage services obtained using soft dollars or that are bundled with trade execution, clearing, settlement or other services provided by a broker-dealer may be used in such a way that disproportionately benefits one Client over another (e.g., economics of scale or price discounts). For example, research or brokerage services paid for through one Client's commission may not be used in managing that Client's account. Additionally, where a research product or brokerage service has a mixed-use, determining the appropriate allocation of the product or service may create conflicts. See *Item 12 – Brokerage Practices* of this Brochure for information regarding Caerus' use of soft dollars.

Conflicts may arise where Caerus has the responsibility and authority to vote proxies on behalf of its Clients. Please refer to *Item 17 – Voting Client Securities* of this Brochure for information regarding the policies and procedures governing Caerus' proxy voting activities.

Caerus may conduct business with institutions such as broker-dealers or investment banks that invest, or whose clients invest, in pooled vehicles sponsored or advised by Caerus, or may provide other consideration to such institutions or recognized agents, and as a result Caerus may have a conflict of interest in placing its brokerage transactions.

**Material Non-Public Information:** Caerus' Chief Compliance Officer or his designee maintains a list of restricted securities as to which Caerus may have access to material non-public information and in which Clients are not permitted to trade without prior approval from the Chief Compliance Officer or his designee.



In the event that any employee of Caerus obtains such material non-public information, Caerus may be restricted in acquiring or disposing investments on behalf of Clients, which could impact the returns generated for Clients.

Notwithstanding the maintenance of restricted lists and other internal controls, it is possible that the internal controls relating to the management of material non-public information could fail and result in Caerus, or one of its investment professionals, buying or selling a security while potentially in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on the reputation of Caerus, result in the imposition of regulatory or financial sanctions, and as a consequence, negatively impact Caerus' ability to perform investment management services on behalf of Clients.

In an effort to mitigate these risks, Caerus maintains a Code of Ethics, as described herein above, and provides training to supervised persons with respect to conflicts of interest and how such conflicts are resolved under Caerus' policies and procedures.

**Investment Activity by Caerus and Affiliates:** From time to time, various potential and actual conflicts of interest may arise from the overall advisory, investment, and other activities of Caerus, its affiliates, and their personnel. Caerus will endeavor to resolve conflicts with respect to investment opportunities in a manner they deem equitable to the extent possible under the prevailing facts and circumstances. Caerus' affiliates may invest, on behalf of themselves, in securities and other instruments that would be appropriate for, are held by, or may fall within the investment guidelines of a Client. Caerus' affiliates may give advice or take action for their own accounts that may differ from, conflict with, or be adverse to, advice given to or action taken for Clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for, one or more Clients. Potential conflicts also arise due to the fact that Caerus' affiliates may have investments in some Clients but not in others or may have different levels of investments in the various Clients, and that each of the Clients may pay different levels of fees.

**Approach to Other Potential Conflicts:** Various parts of this Brochure discuss potential conflicts of interest that arise from Caerus' asset management business model. Caerus discloses these conflicts due to the fiduciary relationship with its investment advisory Clients. As a fiduciary, Caerus owes its investment advisory Clients a duty of loyalty. This includes the duty to address, or at minimum disclose, conflicts of interest that may exist between different Clients; between Caerus and Clients; or between its employees and its Clients. Where potential conflicts arise, Caerus will take steps to mitigate, or at least disclose, them. Conflicts that Caerus cannot avoid (or chose not to avoid) are mitigated through written policies that Caerus believes protect the interests of its Clients as a whole. In these cases – which include issues such as personal trading and Client entertainment – regulators have generally prescribed detailed rules or principles for investment firms to follow. By complying with these rules, by using robust compliance practices, Caerus believes that it has handled these conflicts appropriately. These interactions are not static; Caerus' business is continually evolving and changes in Caerus' activities can lead to new potential conflicts. Caerus reviews its policies and procedures on an ongoing basis to evaluate their effectiveness and update them as appropriate.



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## Item 12 Brokerage Practices

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Generally, Caerus receives discretionary investment authority from its Clients at the outset of an advisory relationship. Depending on the terms of the applicable Management Agreement, Caerus' authority may include the ability to select broker-dealers through which to execute transactions on behalf of its Clients, and to negotiate the commission rates, if any, at which transactions are effected. Caerus may also have the authority to enter into International Swap and Derivatives Association ("ISDA"), repurchase clearing, trading brokerage, margin future, options, or other types of agreements on behalf of Caerus' Clients. In making decisions as to which securities are to be bought or sold and the amounts thereof, Caerus is guided by the mandate selected by the Client and any Client-imposed guidelines or restrictions. Unless Caerus and the Client have entered into a non-discretionary arrangement, Caerus generally is not required to provide notice to, consult with, or seek the consent of its Clients prior to engaging in transactions.

### **Brokerage Selection**

The overriding consideration in allocating Client orders for execution is the maximization of Client profits (or minimization of losses) through a combination of controlling transaction costs (including market impact) and seeking the most effective uses of a broker's capabilities. When Caerus has the authority to select broker-dealers to execute transactions for its Clients, it seeks to obtain the best execution reasonably available under the circumstances (which may or may not result in paying the lowest available brokerage commissions or spread). In so doing, Caerus considers all factors it deems relevant. Such factors may be either venue specific or transaction specific and may include, but are not limited to: (A) for venues: (i) execution capability including speed of execution, quality of communication links to Caerus, clearance and trade settlement history and capability and ratio of complete versus incomplete trades; (ii) ability to handle large trades in securities having limited liquidity without undue market impact and ability to provide liquidity (as principal, agent or otherwise); (iii) access to market liquidity and quotation sources; (iv) financial condition of the counterparty, including reputation and creditworthiness; (v) responsiveness and reliability in executing trades, keeping records and accounting for and correcting administrative errors; (vi) ability to maximize price improvement opportunities, including the ability to provide ad hoc information or services; and (vii) ability to comply with all regulatory requirements; and (B) for transactions: (i) price and overall cost of the transaction, including any related credit support; (ii) the size, type and timing of the transaction; (iii) existing and expected activity in the market for the security, including any trading patterns of the security and the particular marketplace; (iv) nature and character of the security or instrument and the markets on which it is purchased or sold; (v) value of research provided, if permitted under applicable law or regulation; (vi) fund or portfolio objectives or Client requirements (if permissible), as may be applicable; (vii) if applicable, Client-directed brokerage arrangements; and (viii) applicable execution venue factors.

Caerus does not consider a broker-dealer's sales of Caerus' affiliated products, including shares of Funds or any other advised (or sub-advised) investment company, when determining whether to select such broker or dealer to execute Client portfolio transactions. Caerus may also enter into over-the-counter derivatives transactions generally on stocks, indices, interest rates, debt securities or currencies to seek to enhance the Client's portfolio return and attempt to limit downside risk. Counterparties to these derivatives transactions are selected based on a number of factors, including credit rating, execution prices, execution capability with respect to complex derivative structures and other criteria relevant to a particular transaction.



Caerus' endeavor is to be aware of current charges assessed by relevant broker-dealers and to minimize the expense incurred for effecting portfolio transactions, to the extent consistent with the interests and policies of Client accounts. However, Caerus will not select broker-dealers solely on the basis of "posted" commission rates nor always seek in advance competitive bidding for the most favorable commission rate applicable to any particular transaction. Although Caerus generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent as transactions that involve specialized services on the part of a broker-dealer generally result in higher commission rates or equivalents than would be the case with more routine transactions. Caerus may pay higher commission rates to those brokers whose execution abilities, brokerage or research services or other legitimate and appropriate services are particularly helpful in seeking good investment results.

Unless inconsistent with Caerus' duty to seek best execution, Caerus may direct a broker to execute a trade and "step out" a portion of the commission in favor of another broker that provides brokerage or research related services to Caerus as described above. Caerus may also use step out transactions in fulfilling a Client-directed brokerage arrangement, to allow for an order to be aggregated, or for regulatory or other purposes. However, Caerus does not enter into agreements with, or make commitments to, any broker-dealer that would bind Caerus to compensate that broker-dealer, directly or indirectly, for Client referrals or sales efforts through placement of brokerage transactions; nor will Caerus use step out transactions or similar arrangements to compensate selling brokers for their sales efforts. The Mutual Funds managed by Caerus have adopted procedures pursuant to Rule 12b-1(h) under the 1940 Act which provide that neither the Mutual Funds nor Caerus may direct brokerage in recognition of the sale of fund shares. Consistent with those procedures, Caerus does not consider sales of shares of the Mutual Funds, as a factor in the selection of brokers or dealers to execute portfolio transactions. However, whether or not a particular broker or dealer sells shares of a Mutual Funds manage by Caerus neither qualifies nor disqualifies such broker or dealer to execute transactions for those Mutual Funds.

### **Soft-Dollar Arrangements**

In those circumstances where more than one broker-dealer is able to satisfy Caerus' obligation to obtain best execution, Caerus may place a trade order on behalf of Client accounts with a broker-dealer that charges more than the lowest available commission cost or price. Caerus may do this in exchange for certain brokerage and research services provided either directly from the broker-dealer or through a third party ("Soft Dollar Arrangements"), provided that each of the following is met:

- Caerus determines:
  - (i) The research or brokerage product or service constitutes an eligible brokerage or research service under Section 28(e)(3) of the Exchange Act;
  - (ii) The research or brokerage product or service provides lawful and appropriate assistance in the performance of Caerus' investment decision making responsibilities; and
  - (iii) In good faith the amount of Client commissions paid is reasonable in light of the value of the products or services provided.
- The brokerage or research is "provided by" a broker-dealer who participates in effecting the trade that generates the commission. Caerus may not incur a direct obligation for research with a third-



party vendor and then arrange to have a broker- dealer pay for that research in exchange for brokerage commissions.

- Caerus may only generate soft dollars with commissions in agency transactions. Caerus may not use dealer markups in principal transactions to generate soft dollars. In addition, a trade for a fixed income security or over-the-counter (“*OTC*”) security may be done on an agency basis only if the trader determines that it would not result in a broker-dealer unnecessarily being inserted between Caerus and the market for that security.
- No soft dollars are generated on accounts for which:
  - (i) Investment discretion resides with the Client (*i.e.*, non-discretionary accounts);
  - (ii) Client mandates restrict or prohibit the generation of soft dollar commissions;
  - (iii) The Client has a directed brokerage arrangement.
- The brokerage trade placed is for “securities” transactions (and not, for example, futures transactions).

If a Client account is under the custody of one brokerage firm and another brokerage firm is a selling group member for an underwriting syndicate, such a Client account may not be able to participate in the purchase of securities in the underwriting because the custodial brokerage firm was not a selling group member. In addition, to the extent that a Client directs brokerage trades to be placed with a particular broker, the allocation of securities transactions may be impacted.

The term “soft dollars” refers to the receipt by Caerus of products and services provided by brokers without any cash payment by Caerus, based on the volume of revenues generated from brokerage commissions for transactions executed for Clients’ accounts. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment). Brokerage and research services may either be obtained from brokerage firms or paid for by brokerage firms and may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; news, quotation, statistics and pricing services, as well as discussions with research personnel and consultants; and software, data bases and other technical and telecommunications services and equipment utilized in the investment management process and consulting fees in connection with investigating and monitoring potential and existing investments. Research services may be proprietary research (created or developed by the broker-dealer) and research created or developed by a third party. Research services, whether obtained by the use of commissions arising from a Client’s portfolio transactions or paid for by Caerus and charged to a Client as described above, may be used by Caerus for the benefit of other Clients. In formulating and implementing its policies with regards the use of commissions or “soft dollars” it is the Caerus intent to stay within the parameters of Section 28(e) of the Exchange Act. Caerus seeks to allocate soft dollar benefits among Client accounts in a fair and equitable manner under the circumstances.

Using “soft dollars” to obtain investment research and/or related services creates a potential conflict of interest between Caerus and its Clients’ accounts, because the “soft dollars” may be used to acquire such products and services that are not exclusively for the benefit of the Client accounts that paid such commissions and that may primarily benefit Caerus. To the extent that Caerus is able to acquire these



products and services without expending Caerus resources (including management fees paid by Client accounts), Caerus' use of "soft dollars" would tend to increase its profitability. Furthermore, Caerus may have an incentive to select or recommend brokers based on its interest in receiving research or other products or services, rather than on its Clients' interest in receiving most favorable execution. Caerus may cause Clients to pay commissions (or markups or markdowns) higher than those charged by other brokers in return for soft dollar benefits. Caerus does not, however, negotiate higher rates on fees and expenses to be paid by Clients in exchange for lower rates on fees and expenses to be paid by Caerus.

Research services furnished by brokers through whom Caerus effects securities transactions may be used in servicing all of Caerus' Clients' accounts, and not all such services may be used in connection with the accounts which paid commissions to the broker providing such services. Caerus seeks to allocate soft dollar benefits among Client accounts in a fair and equitable manner under the circumstances, but there can be no assurance that we will be successful in this regard.

Section 28(e) of the Exchange Act, provides a safe harbor to advisers who use soft dollars generated by Client accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to Caerus in the performance of investment decision-making responsibilities. Caerus intends that any soft dollars that it receive in connection with Client-related matters would be within the limitations set forth in Section 28(e) of the Exchange Act. Examples of eligible services and products include independent stock research, economic research, research in specific industry sectors, real time feeds, newswires, strategic analysis, and back office systems.

### **Brokerage for Client Referrals**

As stated herein above, Caerus does not consider, in selecting or recommending a broker-dealer, whether Caerus or a related person receives Client referrals from that broker-dealer.

### **Directed Brokerage**

Caerus does not routinely recommend, request or require that a Client direct Caerus to execute transactions through a specified broker-dealer. Clients may recommend Caerus uses their preferred broker-dealer(s). Caerus will use such broker-dealer(s) subject to its determination that said broker-dealer provides best execution of the Client transactions. In a situation where a Client directs Caerus to place trades with a particular broker-dealer, Caerus may not be free to seek the best price, volume discounts or best execution by placing transactions with other broker-dealers. Additionally, as a result of directing Caerus to place trades with a particular broker-dealer, a disparity in commission charges may exist between the commissions charged to Clients who direct Caerus to use a particular broker-dealer and those Clients who do not direct Caerus to use a particular broker-dealer as well as a disparity among the brokers to which different Clients have directed trades.

### **Aggregation of Orders**

Orders of Clients may be combined (or "bunched") when possible to obtain volume discounts resulting in a lower per share commission. Please see *Item 11 – Code of Ethics, Trade Aggregation* of this Brochure for more information regarding Caerus' trade aggregation procedures.





### **IPO/Limited Offering Allocations**

Clients may from time to time participate in an initial public offering (an “*IPO*”), or other types of limited offerings, if the portfolio manager managing the portfolio believes that the offering is an appropriate investment based on the portfolio's investment restrictions, risk profile, asset composition and/or cash levels. Clients must be eligible to receive allocations of IPOs pursuant to relevant FINRA regulations. In the event that Caerus reasonably determines that a Client is not eligible to receive IPO allocations pursuant to these regulations or does not have reasonable assurances that the Client is eligible to receive allocations, Caerus may prohibit the Client's account from receiving any allocations of an available offering. Caerus' IPO/limited offering allocation procedures generally require all shares to be allocated on a *pro-rata* basis to all participating eligible accounts based on the total assets of each account. In certain circumstances, Caerus may deviate from a *pro-rata* allocation to account for allocation sizes that are deemed by investment personnel to be *de minimis* for certain eligible accounts or to address situations specific to individual accounts (e.g., cash limitations, position weightings, etc.). Caerus cannot assure, in all instances, participation in IPOs or limited offerings by all eligible accounts. In the event an eligible account does not participate in an offering, Caerus does not reimburse for opportunity costs. See *Item 11 – Code of Ethics, Allocation of Investment Opportunities* of this Brochure for more information regarding potential conflicts of interest.

### **Cross Trades**

In its discretion, Caerus may, but is not required to, engage in “cross trades”, whereby Caerus causes one of its Clients to sell a security and another of its Clients to purchase the same security at or about the same time, provided such transaction is in the best interests of both Client accounts and is consistent with Caerus' best execution obligations. Cross trades may be used in an effort to obtain best execution because cross trades can potentially reduce transaction costs and increase execution efficiency. Cross trades present potential conflicts of interest. For example, there is a risk that the price of a security bought or sold in a cross trade may not be as favorable as it might have been had the trade been executed in the open market. Additionally, there is a potential conflict of interest when a cross trade involves a Client account on one side of the transaction and an account in which Caerus has substantial ownership or a controlling interest (such as a newly-formed sponsored Fund) or an account in which Caerus receives a higher Management Fee on the other side of the transaction.

To address these potential conflicts, Caerus maintains policies and procedures, which require that all cross trades are made at an independent current market price and are consistent with Section 206 of the Advisers Act. In addition, if one of the parties to the cross trade is a registered investment company, the transaction must comply with procedures adopted under Rule 17a-7 under the 1940 Act. Caerus does not permit cross trades with accounts subject to ERISA. While Caerus generally does not execute cross trades among the Mutual Funds and other Client accounts, Caerus may execute cross trades among separate accounts and/or other accounts managed by Caerus. See *Item 11 – Code of Ethics, Cross Trades* of this Brochure for more information regarding potential conflicts of interest.

### **Security Valuation**

Equity securities are generally valued on the basis of market quotations. Fixed-income securities are generally valued in accordance with an evaluated bid price supplied by a pricing service. The evaluated



bid price supplied by the pricing service is an evaluation that reflects such factors as security prices, yields, maturities, and ratings. Certain short-term instruments maturing within 60 days or less are valued at amortized cost, which approximates market value. If a market quotation or evaluated price is not readily available or is deemed unreliable, or if an event that is expected to affect the value of a portfolio security occurs after the close of the principal exchange or market on which that security is traded, and before the close of the New York Stock Exchange, the fair value of a security will be determined in good faith under policies and procedures established by and under the supervision of Caerus' Investment Committee. Although Caerus is not generally the pricing agent for its Clients, Caerus, in certain cases and upon request, may provide a fair value price to a Client's pricing agent, solely for informational purposes, for a security in cases where market quotations or evaluated prices are not readily available or deemed unreliable due to significant events or other factors. In these instances, the Client's pricing agent makes the ultimate determination of the security's value. Because Caerus may be compensated based on the value of assets held in an account or based on the performance of the account, Caerus may have a potential incentive to set a high valuation for a security; however, Caerus does not intend to use valuations that are higher than fair value. Caerus believes that this potential conflict may be mitigated by its valuation policy and procedures.

There may be differences in prices for the same security held by Caerus' Clients because its provided price (for the situations described above) may not be accepted by the relevant pricing agent. In addition, certain Clients may utilize a third-party valuation model to value equity securities of non-U.S. issuers to adjust for stale pricing which may occur between the close of the non-U.S. exchanges and the New York Stock Exchange. These pricing models may not be used by the relevant pricing agent. Benchmark indexes generally do not use fair value pricing and use national and regional indices to value securities using unadjusted closing prices in local markets. In addition, the value of assets denominated in non- U.S. currencies is converted into U.S. dollars using exchange rates deemed appropriate by Caerus, which may also vary from the exchange rates used for calculation on any given index.

### **Trade Rotation**

To address the conflicts of interest and trading matters, Caerus maintains brokerage and trading policies, including policies and procedures for best execution discussed above and trade rotation. Caerus believes its policies and procedures are consistent with its duties as a fiduciary to treat its Clients fairly in a manner that does not systematically favor one Client (or group of Clients) over another Client (or group of Clients).

Depending on the market capitalization, or market availability, of certain securities, trade orders may take multiple days to complete and may be executed as part of a rotation. If Caerus determines that there is not sufficient liquidity in the market to support an entire trade or order, Caerus will take steps to manage the liquidity profile of the order and minimize its impact on the market. In limited circumstances, this may include rotating trades between its Clients. To the extent Caerus deems a trade highly illiquid, Caerus may split the trade into smaller orders and then rotate in the same manner as trades for illiquid securities would be rotated. Rotating trades may result in a longer delay in executing trades and/or a materially better or worse price for Clients that are traded in later rotations.

Conflicts of interest can arise between Caerus best execution policies and procedures and trading instructions that Caerus may receive from Client agreements. In those cases, Caerus will act in a manner that it believes is consistent with the best interests of its Clients and its best execution policies and procedures.



## **ADRs**

In certain circumstances, Caerus may invest Client assets in American Depositary Receipts (“ADRs”). When doing so, depending upon the existence and/or liquidity of the ADR and other factors, these trades may be executed in the U.S. or in a non-U.S. market. When trades are executed in non-U.S. markets, non-U.S. securities will be acquired and broker-dealers or other securities intermediaries will convert these non-U.S. securities into U.S. ADRs (denominated in U.S. dollars). Broker-dealers or other securities intermediaries may charge commissions, conversion and/or other fees for converting the securities into ADRs, all of which will be included (*i.e.* netted) into the price of the securities. These conversion fees may be negotiable, may vary, and typically are paid by the Clients.

Additionally, Caerus may convert a non-U.S. security to an ADR that would be considered highly illiquid when traded in the U.S. This may make it difficult to liquidate a position when Clients close an account, transfer the assets to another firm, request a withdrawal or other transaction that requires the security be traded domestically versus in the foreign security market. The liquidity, or lack thereof, of the converted ADRs in the U.S. market could result in a transaction price that differs substantially from the transaction price that could be obtained if that same security was transacted in the non-U.S. market.

## **Company Errors**

Trade errors may occur either in the investment decision-making process (*e.g.*, a purchase of a security or an amount of security that violates a Client’s investment restrictions) or in the trading process (*e.g.*, a buy order executed as a sell, the purchase or sale of a security other than what was intended, or trading an incorrect quantity of securities). Internal or clerical mistakes that affect the investment or trading process and have a financial impact to a Client will also be treated as trade errors.

A “trade error” will generally be defined as a transaction that is executed in a manner that was not intentional and results in a corrective action being taken. Any mistakes that do not affect the investment decision-making or trading process or cause a violation of a Client’s investment policies or restrictions, and do not cause gain or loss to the Client, will not be treated as trade errors.

Caerus’ traders will be responsible for notifying the Chief Compliance Officer promptly of the circumstances of any trade error. Traders will discuss any action taken to correct a trade error (*e.g.*, selling a security in the open market) and/or any other corrective action with the Chief Compliance Officer prior to its implementation as to whether such action is appropriate.

If a third party creates the error, Caerus will look to the third party to take corrective action. Broker-dealers may be held responsible for a portion of any loss resulting from a trade error if actions of such broker-dealer contributed to the error or the loss. Caerus will require broker-dealers to assist in rectifying a trade error on favorable terms if their actions or inactions contributed to the error or the resulting loss. A broker may absorb the loss from a trade error caused by the broker. Caerus will not direct brokerage commissions to brokers, or to enter into other reciprocal arrangements with brokers, in order to induce a broker to absorb a loss from a trading error caused by Caerus. No soft-dollars may be used to satisfy any trade errors. In addition, Caerus may not use the securities in one Client’s account to settle the trade error in another Client’s account.



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## Item 13 Review of Accounts

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Caerus' Investment Committee has the responsibility to exercise and maintain prudent supervision and control of the Client's investments and portfolios. The Investment Committee continuously reviews and insures the investment policies, guidelines, and objectives for each Client's general investment strategy are achieved and attained per the Client's investment policies, guidelines, and objectives as stated in the Client's governing documents. The Investment Committee maintains prudence and effectiveness of each investment of the Client and formulates and oversees the investment policies and management of the Client's assets, and periodically reviews investment strategies and investment performance. In carrying out its duties the Investment Committee provides recommendations on investment opportunities through a stringent due diligence process to identify investment opportunities that meet the Client's stated investment objective and goals; reviews individual investment performance and recommends changes when appropriate; and works closely with staff to ensure that the investment objectives are being met as stated in the Client's governing documents. In monitoring the Client's portfolio of investments, the Investment Committee ensures (i) the management of investments and capital actions are in compliance and consistent with attainment of the Client's investment policy, financial objectives and strategy goals, and (ii) the Client's portfolio is in compliance with legal and regulatory requirements. The review process is further augmented by regular quarterly meetings between the portfolio manager, the Investment Committee and the Chief Compliance Officer. In addition to, and not as a substitute for the foregoing, additional reviews are conducted in accordance with Client requests as set forth in the relevant investment management agreement.

The Investment Committee is comprised of Messrs. Ward Davis, Brian Agnew, Alan Friedman, and Greg Wnuk. The Investment Committee meets frequently, if not daily, by meeting in person, telephone conference, or other interactive electronic communication to discuss market conditions, portfolio analysis, and investment transaction matters.

### **Nature and Frequency of Reporting**

The frequency and nature of reports prepared for Clients varies depending on each Client's requirements and interests. Caerus provides and may in the future provide certain information and documentation to certain Clients that are not distributed or otherwise made available to other Clients. Clients generally receive monthly or quarterly written reports showing portfolio activities and performance on a current and year-to-date basis. These written reports typically disclose all holdings in the Client's account, including cash, together with cumulative year-to-date information about dividends and interest realized by the account. Caerus may furnish certain account transaction and portfolio holdings to institutional Clients such as Funds and separate accounts and their service providers on a more frequent basis. Depending on the type of account, Caerus may also provide oral and/or written presentations about the account's performance on a periodic basis. Caerus will also provide Clients, upon request, other information regarding their portfolio within the parameters of its compliance policies. Clients may request a meeting with Caerus at any time. With respect to the separate accounts, the qualified custodian generally provides each advisory Client, on at least a quarterly basis, an account statement identifying the amount of the funds and securities in the Clients' account(s) and any transactions in the Clients' account(s) during the applicable calendar quarter. **Clients are urged to compare any account statements that they receive from Caerus with the account statements that it receives from its qualified custodians.**



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## Item 14 Client Referrals and Other Compensation

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Caerus does not receive any economic benefits, including sales awards or prizes, from non-clients for providing investment advice and other advisory services.

Currently, Caerus does not directly or indirectly compensate any third-party for advisory client referrals (each a “Solicitor”). In the event Caerus desires to engage a third-party Solicitor in the future to solicit prospective advisory clients, such third-party client solicitation arrangements will be made in compliance with Rule 206(4)-3 of the Advisers Act (the “Cash Solicitation Rule”), which requires that, among other things, compensation to a Solicitor be made pursuant to a written agreement and, for third-party Solicitor arrangements, that the Solicitor provide to each person solicited for Caerus’ advisory services, a written disclosure statement (the “Solicitor’s Disclosure Statement”) and current copy this Brochure.

Currently, Caerus does not directly or indirectly compensate any third-party for referring investors into the Clients (*i.e.*, the Funds) (each a “Placement Agent”). In the event Caerus desires to engage a third-party Placement Agent in the future to refer prospective investors into the Clients, such arrangements will be fully disclosed to affected investors and will generally be consistent with the requirements of the Cash Solicitation Rule under the Advisers Act, which only applies to the solicitation of Clients and not investors. Generally, the terms of such arrangements will vary but may call for Caerus to pay the Placement Agent a fee equal to a percentage of capital contributions, Management Fees, incentive fees, incentive allocations, or a combination of such contributions or fees borne by each investor introduced to a Client by the Placement Agent.



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## Item 15 Custody

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With respect to its current advisory Clients, Caerus does not have custody of its Client's funds or securities, as defined under Rule 206(4)-2 of the Advisers Act (the "*Custody Rule*"). To the extent required by law, all Client securities and cash are held by qualified custodians. Custodians provide account statements directly to the Clients on at least a quarterly basis.

Clients will receive account statements from their broker-dealer, bank, or qualified custodian and should carefully review those statements. Clients should carefully review those statements and, to the extent Caerus also delivers statements to such Clients, compare Caerus' statements to the statements of the qualified custodian. For tax and other purposes, the custodial statement is the official record of a Client's account and assets. Statements received from Caerus may vary from the custodial statements based on accounting procedures, reporting dates or valuation methodologies for certain securities. See *Item 13 – Review of Accounts* of this Brochure for more information about Caerus' account statements.





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## Item 16 Investment Discretion

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As a general rule, Caerus receives discretionary investment authority from its Clients at the outset of an advisory relationship. Depending on the terms of the applicable investment management agreement, Caerus' authority may include the ability to select broker-dealers through which to execute transactions on behalf of its Clients, and to negotiate the commission rates, if any, at which transactions are effected. Caerus may also have the authority to enter into ISDAs, repurchase clearing, trading brokerage, margin future, options, or other types of agreements on behalf of Caerus' Clients. In making decisions as to which securities are to be bought or sold and the amounts thereof, Caerus is guided by the mandate selected by the Client and any Client-imposed guidelines or restrictions. Unless Caerus and the Client have entered into a non-discretionary arrangement, Caerus generally is not required to provide notice to, consult with, or seek the consent of its Clients prior to engaging in transactions. See *Item 4 – Advisory Business* of this Brochure for additional information on Clients' ability to tailor investment guidelines. See *Item 12 – Brokerage Practices* of this Brochure for more information.



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## Item 17 Voting Client Securities

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Caerus shall vote proxies solicited by or with respect to the issuers of securities in which assets of a Client portfolio are invested, unless: (i) the Client is subject to ERISA and the Advisory Contract between Caerus and the Client expressly precludes the voting of proxies by Caerus; (ii) the Client is not subject to ERISA and the Client otherwise instructs Caerus; or (iii) Caerus has responsibility for proxy voting and, in Caerus' judgment, the cost or disadvantages of voting the proxy would exceed the anticipated benefit to the Client. If the Client does not grant direct voting authority to Caerus, Clients will not receive information about their proxies from Caerus. Instead, Clients will be instructed to receive proxies from their custodian, transfer agent or other third-party service providers such as their proxy service provider.

### **Primary Consideration in Voting**

When Caerus votes a Client's proxy with respect to a specific issuer, a Client's economic interest as a shareholder of that issuer is Caerus' primary consideration in determining how proxies should be voted. Caerus will not consider interests of Caerus, other stakeholders of the issuer or interests the Client may have in other capacities. Caerus shall vote proxies with the goal of maximizing the value of the securities in Client portfolios.

### **Engagement of Proxy Advisory Service Provider**

Caerus may engage one or more independent third-party proxy advisory firms ("Proxy Firm") to (i) make recommendations to Caerus of proxy voting policies for adoption by Caerus; (ii) perform research and make recommendations to Caerus as to particular shareholder votes being solicited; (iii) perform the administrative tasks of receiving proxies and proxy statements, marking proxies as instructed by Caerus and delivering those proxies; (iv) retain proxy voting records and information; and (v) report to Caerus on its activities. In no circumstances will a Proxy Firm have the authority to vote proxies except in accordance with standing or specific instructions given to it by Caerus. Caerus will retain final authority and fiduciary responsibility for the voting of proxies.

### **Proxy Voting Guidelines**

Caerus' proxy voting guidelines are both principles-based and rules-based. Caerus adheres to a core set of principles that are described in its Proxy Voting Policy and assesses each proxy proposal in light of these principles. Caerus' proxy voting "litmus test" will always be what it views as most likely to maximize long-term shareholder value. Caerus believes that the authority and accountability for setting and executing corporate policies, goals and compensation generally should rest with the board of directors and senior management. In return, Caerus supports strong investor rights that allow shareholders to hold directors and management accountable if they fail to act in the best interests of shareholders.

Generally, Caerus votes proposals in accordance with these guidelines but, consistent with its "principles-based" approach to proxy voting, Caerus may deviate from the guidelines if warranted by the specific facts and circumstances of the situation (*i.e.*, if, under the circumstances, Caerus believes that deviating from its stated policy is necessary to help maximize long-term shareholder value). In addition, these guidelines are not intended to address all issues that may appear on all proxy ballots. Caerus will evaluate on a case-by-case basis any proposal not specifically addressed by these guidelines, whether submitted by management



or shareholders, always keeping in mind Caerus' fiduciary duty to make voting decisions that, by maximizing long-term shareholder value, are in the Clients' best interests.

The proxy voting guidelines provide that Caerus will generally vote for or against various proxy proposals, usually based upon certain specified criteria. As an example, the guidelines provide that Caerus will generally vote in favor of proposals to:

- Repeal existing classified boards and elect directors on an annual basis;
- Adopt a written majority voting or withhold policy (in situations in which a company has not previously adopted such a policy);
- Lower supermajority shareholder vote requirements for charter and bylaw amendments;
- Lower supermajority shareholder vote requirements for mergers and other business combinations;
- Increase common share authorizations for a stock split;
- Implement a reverse stock split;
- Approve an ESOP (employee stock ownership plan) or other broad-based employee stock purchase or ownership plan, or increase authorized shares for existing plans; and
- Adopt certain social and environmental issues regarding discrimination, disclosures of environmental impact, animal treatment and corporate sustainability, when appropriate.

The proxy voting guidelines also provide that Caerus will generally vote against proposals to:

- Elect director nominees that sit on more than six public company boards, or, if the nominee is a CEO, more than three public company boards;
- Classify the board of directors;
- Require that poison pill plans be submitted for shareholder ratification;
- Adopt dual class exchange offers or dual class recapitalizations;
- Require a supermajority shareholder vote to approve mergers and other significant business combinations;
- Require a supermajority shareholder vote to approve charter and bylaw amendments; and
- Adopt certain social and environmental proposals deemed unwarranted by the company's board of directors.

In certain circumstances, the guidelines provide that proxy proposals will be addressed on a case-by-case basis, including those regarding executive and director compensation plans, mergers and acquisitions, ratification of poison pill plans, a change in the company's state of incorporation and an increase in authorized common stock.

Caerus may vote proxies contrary to the recommendations of the Proxy Firm if it determines that such action is in the best interest of a Client. In exercising its discretion, Caerus may take into account a wide array of factors relating to the matter under consideration, the nature of the proposal and the company involved. As a result, Caerus may vote in one manner in the case of one company and in a different manner in the case of another where, for example, the past history of the company, the character and integrity of its management, the role of outside directors, and the company's record of producing performance for investors justifies a high degree of confidence in the company and the effect of the proposal on the value



of the investment. Similarly, poor past performance, uncertainties about management and future directions, and other factors may lead Caerus to conclude that particular proposals present unacceptable investment risks and should not be supported. In addition, Caerus also evaluates proposals in context. For example, a particular proposal may be acceptable standing alone, but objectionable when part of an existing or proposed package. Special circumstances may also justify casting different votes for different Clients with respect to the same proxy vote.

### **Conflicts of Interest**

Conflicts of interest involved in a proxy vote shall be addressed through the following three-step process:

#### ***Identification of Potential Conflicts of Interest***

Caerus will be deemed to have a potential conflict of interest when voting proxies if:

- Caerus manages assets for that issuer or an affiliate of the issuer and also recommends that its other Clients invest in such issuer's securities;
- A director, trustee, officer or 10% shareholder of the issuer or an affiliate of the issuer is a director of a Client, a Client or an employee of Caerus;
- Caerus is actively soliciting that issuer or an affiliate of the issuer as a Client;
- Clients who sponsor, publicly support or have material interest in a proposal upon which Caerus will be eligible to vote;
- Caerus manages a pension plan, employee benefit plans, or provides brokerage, underwriting, insurance, or banking services to an issuer whose management is soliciting proxies;
- Caerus or an affiliate has a substantial business relationship (separate from Caerus' investment strategy) with an issuer or a proponent of a proxy proposal and this business relationship may influence how the proxy vote is cast;
- Caerus or an affiliate has a business relationship (separate from Caerus' investment strategy) or personal relationship with participants in a proxy contest, corporate directors or candidates for directorships;
- An officer or employee of Caerus or an affiliate may have a familial relationship to an issuer (*e.g.*, a spouse or other relative who serves as a director of an issuer);
- A director or executive officer of the issuer has a personal relationship with Caerus;
- Another relationship or interest of Caerus, or an employee of Caerus, exists that may be affected by the outcome of the proxy vote and that Caerus deems to be an actual or potential conflict for the purposes of this Proxy Voting Policy; or
- Any other conflict of which Caerus becomes aware.

Each employee who is a member of the investment team that recommends votes or serves on the Investment Committee shall, on at least an annual basis, provide to the CCO a list of any public companies with or in which he or she has a relationship or could otherwise be deemed to have a conflict. Each such employee shall also certify to Caerus at least annually that he or she agrees to update such list promptly upon becoming aware of any relationship, interest or conflict other than what he or she originally disclosed.



### ***Determination of Material Conflicts***

When Caerus encounters a potential conflict of interest, it shall review its proposed vote using the following analysis to ensure its voting decision does not generate a conflict of interest:

- If the proposed vote is consistent with Caerus' Proxy Voting Policy, no further review is necessary.
- If the proposed vote is contrary to Caerus' Proxy Voting Policy and the Client's position on the proposal, no further review is necessary.
- If the proposed vote is contrary to Caerus' Proxy Voting Policy or is not covered, is consistent with the Client's position, and is also consistent with the views of the Proxy Firm, no further review is necessary.
- If the proposed vote is contrary to Caerus' Proxy Voting Policy or is not covered, is consistent with the Client's position and is contrary to the views of the Proxy Firm, the vote will be presented to the CCO. The CCO will determine whether the proposed vote is reasonable. If the CCO cannot determine that the proposed vote is reasonable, the CCO may refer the votes back to the Client(s) or take other actions as the CCO deems appropriate. The CCO's review will be documented using a Proxy Voting Conflict of Interest Form.

### ***Establishment of Procedures to Address Material Conflicts***

If a material conflict of interest with respect to a particular vote is encountered, employee are required to contact the CCO to determine how to vote the proxy consistent with the best interests of a Client and in a manner not affected by any conflicts of interest.

### **Recordkeeping**

Pursuant to Rule 204-2, Caerus will retain the following five (5) types of records relating to proxy voting: (i) proxy voting policy and procedures; (ii) proxy statements received for Client securities; (iii) records of votes cast on behalf of Clients; (iv) written Client requests for proxy voting information and written Caerus responses to any Client request (whether oral or written) for proxy voting information; and (v) any documents prepared by Caerus that were material to making a proxy voting decision or that memorialized the basis for the decision. All of the proxy voting records referenced herein above will be maintained by Caerus for a period of not less than seven (7) years from the end of Caerus' fiscal year during which the last entry was made in the records, the first two (2) years in an appropriate office of Caerus

### **Policy Statement and Requests**

Caerus will make the Proxy Voting Policy and Caerus' proxy voting records with respect to a Client's account available to that Client or its representatives for review and discussion upon the Client's request or as may be required by applicable law. Caerus generally will not disclose publicly its past votes, share amounts voted or held or how it intends to vote on behalf of a Client account except as required by applicable law, but may disclose such information to a Client who itself may decide or may be required to make public such information. Questions related to Caerus' Proxy Voting Policy, the proxy voting process and/or information regarding how Caerus voted proxies relating to a Client's portfolio of securities may be obtained by Clients, free of charge, by contacting the CCO at (212) 488-5510 or [greg.wnuk@caerusinvestors.com](mailto:greg.wnuk@caerusinvestors.com).



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## **Item 18 Financial Information**

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Caerus does not solicit prepayment of more than \$1,200 in fees per Client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279. There is no financial condition that is reasonably likely to occur that would impair Caerus' ability to meet contractual commitments to Clients. Caerus has not been the subject of a bankruptcy petition during the past ten (10) years.

