

## Form ADV Part 2A – Disclosure Brochure

April 10, 2014

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This brochure provides information about the qualifications and business practices of Credit Suisse Securities (USA) LLC (“CSSU”). If you have any questions about the contents of this brochure, please contact your CSSU registered adviser representative (“Relationship Manager”).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about CSSU also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC does not imply a certain level of skill or training.

This brochure contains information about CSSU and material changes since its adoption are described below.

#### Material Changes since the March 31, 2014 update:

1. For accounts where CSSU acts as Investment Adviser, advisory account assets invested in mutual funds shall be limited to non-fee paying share classes, such as institutional share classes, that do not pay any Rule 12b-1 or other fees to CSSU.
2. The minimum account size for the Sub-Advisory Solutions Program is \$250,000 - \$1,000,000.

## I. Advisory Business

### CSSU’s Advisory Business

CSSU is a broker dealer and investment adviser registered with the SEC. It is 100% owned by Credit Suisse (USA), Inc. which is 100% owned by Credit Suisse Holdings (USA), Inc. Credit Suisse Group AG (“Credit Suisse”) is the ultimate parent of Credit Suisse Holdings (USA) Inc. Credit Suisse is a global financial services company providing its clients with Investment Banking, Private Banking, and Asset Management services. In Investment Banking, Credit Suisse offers financial products and advisory services, including debt and equity underwriting, sales and trading, mergers and acquisitions, investment research, correspondent and prime brokerage services to corporations, governments and institutional investors. Effective November 30, 2012,

Credit Suisse combined its Private Banking and Asset Management Divisions to form the Private Banking & Wealth Management Division.

The new structure creates one of the world's leading integrated wealth management businesses and one of the first global investment banks that operates in alignment with the new regulatory reality. Credit Suisse provides comprehensive advice and a range of investment products and services tailored to the needs of the high net worth and ultra-high-net-worth individual client segment. In our Asset Management business, Credit Suisse manages portfolios, mutual funds, and alternative investment vehicles for governments, institutions, corporations and private individuals, focusing on liquid, scalable alternative investment products and multi-asset class solutions.

CSSU, through its Private Banking North America ("PB North America") business, offers products and services in its capacity as investment adviser, portfolio manager, or sponsor of wrap fee programs. As of December 31, 2013, CSSU managed \$15,530,132,902 assets on a discretionary basis and \$4,917,738,235 assets on a non-discretionary basis.

## **Types of Advisory Services Offered by PB North America**

### **Investment Advisory Programs**

PB North America offers investment advisory programs to clients (i) on a discretionary or non-discretionary basis, (ii) from CSSU, and its Relationship Managers or a third-party registered investment adviser, and (iii) pursuant to a wrap fee arrangement or unbundled fee arrangement. The various programs are described below. In each program, clients receive individualized investment advisory services tailored to their particular investment objectives and guidelines. Clients may impose reasonable restrictions on permissible types of investments or specific securities.

PB North America has entered into an agreement with Pershing LLC ("Pershing"), a registered broker dealer, to provide execution, clearing, settlement and custody for all of its investment advisory programs. Pershing also provides account reporting services to certain of its investment advisory programs. Pershing executes all purchase and sale orders directed to it by CSSU and your portfolio manager, as applicable, and also performs clearance and settlement services. CSSU may execute trades itself as a broker-dealer or direct trades to third-party broker dealers for execution. Unless you have selected a third-party custodian, Pershing maintains custody of your account assets, credits interest and dividends on account assets and principal on called or matured securities in the account, and provides such other custodial functions customarily performed with respect to securities brokerage accounts. Similarly, PB North America has entered into an agreement with Lockwood Advisors Inc. ("Lockwood"), a registered investment adviser, to provide administrative and account reporting services for the Preferred Advisors, Global Portfolio Strategies, Managed Portfolio Alternatives, Tactical Global Allocations, and Tactical Portfolio Solutions Programs.

#### **■ Wrap Fee Programs**

A "wrap fee" is an annual inclusive fee paid by the client to PB North America. It covers investment advice, execution, custody, administrative and account reporting services. PB North America pays third parties for their services in the programs and retains the balance of the wrap fee for its services.

PB North America sponsors the Preferred Advisors, Global Portfolio Strategies, and Managed Portfolio Alternatives Programs whereby an unaffiliated investment adviser acts as your discretionary portfolio manager.

PB North America also offers discretionary investment advisory services through the Tactical Global Allocations, Discretionary Managed Portfolios, Tactical Portfolio Solutions and Discretionary Consulting Services Programs. PB North America also offers non-discretionary investment advisory services through the Portfolio Management Services Program. Under the Discretionary Consulting Services Program, CSSU has authority to select third-party portfolio managers who will manage your assets on a discretionary basis. Each of these wrap fee programs is further described in the CSSU Wrap Fee Brochure, which is available upon request.

#### **■ Non-Wrap Fee Programs**

In PB North America's non-wrap fee programs, clients pay PB North America a fee for the investment advisory services that PB North America provides. In addition, clients pay commissions or other execution fees for each transaction, plus custody fees, depending on the nature of the program.

**Family Wealth Management Services:** PB North America provides investment consulting and investment supervisory services to qualified family offices and ultra high net worth individuals, whereby PB North America may recommend investments in affiliated or unaffiliated mutual funds, alternative investment products including but not limited to, hedge funds, private equity funds and structured products ("Alternative Investment Products"), and/or with third-party discretionary portfolio managers in a separately managed account.

After the initial investment in mutual funds is made on a non-discretionary basis, you may authorize CSSU to vary the portion of your assets invested in mutual funds or terminate such investments on a discretionary or non-discretionary basis, as PB North America may elect. You must provide prior written consent for investments in affiliated or unaffiliated Alternative Investment Products and personally complete the subscription or other documentation required for such investments.

PB North America may also provide investment advice through ongoing consultations not involving investment supervisory services, such as asset allocation advice and monitoring the performance of unaffiliated investment managers. In addition, on more than an occasional basis, PB North America may provide business consulting or tax return preparation services as well as advice on matters not involving securities, such as real estate investments, mortgage refinancing, or estate tax planning.

**Financial Planning Services:** Financial Planning Services are available to clients who seek a comprehensive, personalized written financial plan (the "Plan") that assesses your current and projected financial situation and investment goals and establishes an investment strategy to seek to meet those goals within your stated risk tolerances.

You must enter into a Financial Planning Agreement with CSSU to receive these services. You may terminate the agreement at any time by written notice to CSSU.

You will be required to enter into a new Financial Planning Agreement and pay a separate, negotiated fee for any updates to the Plan.

The Plan may include an analysis of any of the following: investment planning, education planning, insurance planning, risk management, cashflow, disability planning, tax and estate planning, stock option strategies, asset allocation strategies, foundation/philanthropy planning, and net worth. The analysis depends upon your specific investment objectives, financial goals and needs, risk tolerance, age, current asset allocation, value of assets, and complexity of your current financial situation. PB North America will rely upon the information you provide to create the Plan and it is up to you to inform us if there is a change in your financial or personal circumstances that may affect the Plan.

The Plan does not analyze, recommend, or include on-going advice as to specific securities or investments but rather is intended to serve as a basis for further analysis and discussion between you and your financial, legal and tax advisers toward developing a suitable investment strategy for pursuing your financial goals.

PB North America provides analytical and advisory services only in creating the Plan. PB North America does not provide legal, tax, accounting or other professional services.

You are not required to engage CSSU or its affiliates to implement the Plan. If you choose to engage CSSU to implement the Plan, a separate agreement and fee will apply depending upon the nature of the relationship and the type of services to be provided.

**Investment Consulting Solutions:** PB North America offers the Investment Consulting Solutions ("IC Solutions") program, whereby PB North America recommends an asset allocation based upon your investment objectives and risk tolerance which may include investments in unaffiliated mutual funds, Alternative Investment Products, and/or with third-party discretionary portfolio managers in a separately managed account. You have the option of implementing the recommendations with CSSU or through third-party portfolio managers, broker dealers and custodians.

**Discretionary Consulting Services:** CSSU, as your investment adviser, shall construct a portfolio and asset allocation based upon your written investment objectives and risk tolerance. CSSU shall implement the portfolio by selecting third-party portfolio managers to manage your assets on a discretionary basis in accordance with specific investment strategies. CSSU shall have discretion to allocate your assets among the portfolio managers and to terminate specific portfolio managers when it deems appropriate.

**Sub-Advisory Solutions Program:** CSSU provides discretionary investment advisory services based on the investment advice of certain affiliated and unaffiliated registered investment advisers retained by CSSU to serve as sub-advisers for your account. Each

sub-adviser is responsible for managing your account on a discretionary basis and has the authority to take all actions CSSU could, subject to CSSU's supervision and direction.

You must enter into a Client Service Agreement ("CSA") with CSSU in order to obtain any of the services referenced above. You may terminate the CSA at any time upon written notice to CSSU.

## **Hedge Fund Feeder Platform**

CSSU serves as investment manager to the PB North America hedge fund feeder platform, Credit Suisse HedgeFocus (the "HedgeFocus Platform"), which offers PB North America clients access to a selection of single manager hedge funds ("Underlying Funds") through feeder funds ("HedgeFocus Funds") in which clients may invest. CSSU may select both affiliated and unaffiliated Underlying Funds for inclusion on the HedgeFocus Platform. CSSU will offer onshore HedgeFocus Funds for U.S. taxable clients as well as offshore HedgeFocus Funds for U.S. tax-exempt clients and non-U.S. clients who can invest pursuant to Regulation S of the Securities Act of 1933 ("1933 Act"). Investment thresholds in the HedgeFocus Funds are generally lower than the minimum investment thresholds in the Underlying Funds. Each HedgeFocus Fund operates pursuant to an exemption from registration as an investment company under Section 3(c)(7) of the Investment Company Act of 1940 ("1940 Act") and are offered to U.S. clients in private placements pursuant to Regulation D under the 1933 Act.

## **II. Fees and Compensation**

Depending on the program that you select, you can pay either a wrap fee or unbundled fees.

### **Investment Advisory Programs**

#### **Wrap Fee Programs**

You will pay a wrap fee based upon the total assets you invest in a program. Further information about wrap fee programs is provided in CSSU's Wrap Fee Brochure, which is available upon request.

#### **Non-Wrap Fee Programs**

Depending on the program you select, you may pay an unbundled fee for investment advisory services, separate commissions or fees for execution and custody, a transaction-based fee, a fixed fee, or a flat fee for services to be provided. For further information about CSSU's brokerage practices, please refer to Section IX below.

- **Discretionary Portfolio Management and Portfolio Managed Services Programs:** If you choose to pay transaction-based compensation for these programs you will pay brokerage commissions at CSSU's standard rates unless otherwise agreed to between us and you. Your Relationship Manager will receive a portion of the brokerage commissions charged for such transactions. Currently, small transactions with a principal value of less than \$2,000 will be charged a \$35 transaction charge. Small transactions with a principal value of \$2,000 may be charged up to \$100.
- **Family Wealth Management:** CSSU includes the assets invested in affiliated and unaffiliated mutual funds as well as the assets invested in affiliated and unaffiliated Alternative Investment Products in calculating the fee you will be charged for investment advisory services through Family Wealth Management Services. In addition, you will also separately pay the applicable fees, charges and expenses associated with investments in said mutual funds and Alternative Investment Products.

Fees for consulting services provided by Family Wealth Management Services are negotiated on a case by case basis and charged separately from and in addition to the investment advisory fee. Fees for estate tax planning and preparation of tax returns are also separate from and in addition to the investment advisory fee.

**Financial Planning:** The fee for Financial Planning Services is negotiable depending on the number of Plans requested, the services provided, the complexity of your financial situation, and the amount and type of assets to be taken into consideration. Fifty percent of the fee is due and payable upon execution of the Financial Planning Agreement. The balance is due when we deliver the Plan to you. The fees payable under the Financial Planning Agreement cover only the preparation of the Plan, not the costs you may incur in implementing the Plan. Your Relationship Manager will receive a portion of the fee. CSSU employees or affiliates may pay discounted fees for Financial Planning Services. You have the right to terminate the agreement without penalty within five (5) business days after its effective date, provided the Plan has not been delivered. If you terminate the agreement five

(5) or more business days after its effective date, but before the Plan has been delivered, we reserve the right to charge, and you agree to pay, reasonable fees to cover CSSU's costs in preparing the Plan.

- **Investment Consulting Solutions:** Under the IC Solutions program, you may also elect an unaffiliated portfolio manager to manage, on a discretionary basis, all or a portion of the assets subject to the Investment Consulting Solutions Agreement (the "IC Solutions Agreement") in your investment advisory account. In said instances, you will enter into a separate investment advisory agreement with the unaffiliated portfolio manager and will pay a separate investment management fee, plus any other fees, directly to such unaffiliated portfolio manager.

For participating in the IC Solutions program, you will be assessed a fee quarterly, in advance, based upon the market value of account assets as of the last business day of the preceding quarter. If your account is opened on a day other than the first business day of the quarter, the fee is charged at inception on a pro-rata basis that reflects the number of days remaining in the calendar quarter. Upon termination of the applicable IC Solutions Agreement, you will be entitled to a pro-rata refund of any pre-paid quarterly fee based upon the number of days remaining in the quarter. Certain legacy clients shall be assessed a fee quarterly, generally in arrears, as of the last business day of that quarter. The fee is not adjusted for capital flows in the account.

The fee is negotiable depending on such factors as the type and level of service provided, whether multiple accounts are involved (such as in a family relationship), the number of family members, the types of assets managed, and whether there is a large equity concentration in your portfolio (such as a core holding). Most client accounts are subject to a minimum annual fee. Some accounts are charged a flat, fixed fee and others have varying fees applicable to different asset classes or services provided. Generally, you will be sent a duplicate of the invoice at the time it is sent to your custodian for payment. The amount payable in respect of a given quarter will be an amount equal to the product of (i) the amount determined by applying the fee agreed to between you and us to the value of your account as of the last business day of such quarter, times (ii) a fraction, the numerator of which is three (or if less, the number of months in such quarter for which services were rendered, in the event the investment management or advisory agreement is entered into after the beginning and/or terminated prior to the end of a quarter) and the denominator of which is 12. Each quarterly invoice will contain a detailed description of how the fee was calculated. All custodian-related fees are paid directly by you and are in addition to any investment advisory fee described above.

For purposes of calculating fees, your account will be valued by your custodian as of the last business day of the quarter. The fee is then applied to the custodian's valuation. If an asset in your account is not valued by your custodian, CSSU will value that asset at cost or the fair reasonable value of the asset. CSSU will include the assets managed by any unaffiliated portfolio manager when it calculates the investment management fee you will be charged for investment supervisory services that CSSU provides to you.

- **Discretionary Consulting Services Program:** If your account is custodied with a third-party custodian, you will pay the following fees, commission and expenses separately: (a) an advisory fee to CSSU, for the investment advisory services it provides in constructing the portfolio and asset allocation and selecting third-party portfolio managers, and (b) an advisory fee to each portfolio manager selected to manage your assets on a discretionary basis (each an "Advisory Fee"), (c) commissions for transactions effected by the portfolio manager through third-party broker dealers, and (d) fees for custodial services provided by a third-party custodian. The Advisory Fee is negotiable depending upon, among other things, the size and the types of assets managed to be managed. The Advisory Fee, paid to CSSU, will generally be payable quarterly in advance based upon the market value of your account assets as of the close of business on the last business day of the preceding calendar quarter, as provided by your custodian and reflected on your quarterly account statement. Where such market values are not available from your custodian, the account assets' fair value is determined in good faith by CSSU. Commissions related to transactions executed by third-party managers will be incurred in the account at the time the transaction is executed. Fees for custody services, if applicable, shall be charged separately by the third-party custodian. If your account is opened on a day other than the first business day of the quarter, the fee is charged at inception on a pro rata basis that reflects the number of days remaining in the calendar quarter. Upon termination of the applicable CSA, you will be entitled to a pro-rata refund of any pre-paid quarterly fee based upon the number of days remaining in the quarter.
- **Sub-Advisory Solutions Program:** You will pay an annual fee of up to a maximum of 1.5% per annum of the assets under management which covers advisory, custodial and administrative services but excludes brokerage commissions, mark-ups, mark-downs and spreads on transactions that are effected for your account. The excluded transaction charges are in addition to the annual fee you pay. Fees are generally charged quarterly in advance based on the value of the assets under management on the

last day of the preceding quarter, are adjusted for capital flows in your account, and automatically deducted from your account. Fees are negotiable depending on such factors as nature and extent of the client relationship, amount of assets to be managed and other factors. The initial fee is charged at the end of the first quarter of management of the account based on the assets under management on the last day of the quarter and will be assessed pro rata based on the number of days during the quarter the assets were held in the account. Thereafter, fees are charged in advance. At your request, transactions may be executed on margin and, in said instances, fees are based on the value of your account including the amount of your margin loan. Upon termination of the CSA, you will be entitled to a pro-rata refund of any pre-paid quarterly fee based upon the number of days remaining in the quarter.

## **HedgeFocus Platform**

Clients that invest in a HedgeFocus Fund are charged a sponsor fee, which is paid to CSSU in its capacity as the investment manager of the HedgeFocus Funds (the "Sponsor Fee"). The Sponsor Fee schedule will vary depending upon the HedgeFocus Fund and Class in which you invest. The Sponsor Fee is calculated and payable monthly in arrears upon the value of your investment in a HedgeFocus Fund. The highest possible Sponsor Fee charged for a HedgeFocus Fund may be 1.00%.

## **Additional Compensation Received by CSSU or your Relationship Manager**

CSSU may receive compensation from third-party broker-dealers for directing order flow to them in option securities. All such compensation will be retained by CSSU and may be shared with your Relationship Manager.

CSSU, in its capacity as a broker dealer, has been retained by each HedgeFocus Fund to solicit prospective investors (in such capacity, the "Placement Agent"). In executing the subscription agreement for investment in the HedgeFocus Funds (a "Subscription Agreement"), you agree that the Placement Agent is entitled to receive a placement fee (the "Placement Fee") from you in the amount disclosed in such Subscription Agreement. The amount of the Placement Fee may vary among clients. Your Relationship Manager is entitled to receive a sales commission out of the Placement Fee that you pay. In addition, CSSU, in its capacity as broker-dealer for an Underlying Fund, may receive a placement fee from an Underlying Fund or its investment manager (an "Underlying Manager"), in each case in connection with the investment made by the corresponding HedgeFocus Fund(s). The amount of such placement fee is generally based in part on the total amount of your assets that are invested in the Underlying Fund (both directly and via the corresponding HedgeFocus Fund(s)). This fee will be retained by CSSU and will not be credited back to you or applied to reduce the amount of Sponsor Fees that you pay. Your Relationship Manager will receive a portion of this compensation.

## **Exchange Traded Products, Mutual Funds and Offshore Funds**

You may incur indirect fees and expenses for your investments in Exchange Traded Products ("ETPs"), mutual funds, and offshore funds, including money market funds under the automatic cash sweep program described below. These fees and expenses are initially paid by the fund complex but are passed on to all fund investors owning the same class of shares (e.g. management fees, portfolio transaction execution costs, custody, administrative services and transfer agency fees and other expenses, including distribution fees and shareholder servicing fees). Such fees and expenses will be included in the price of the ETP, mutual fund, or offshore fund and are not separately disclosed.

Cash balances in your account awaiting investment or reinvestment may be invested, as and when they become available ("automatic cash sweep"), in the money market fund you select at the time you open an account. Money market funds managed by affiliates of CSSU or by unaffiliated portfolio managers are available for automatic cash sweep. You are prohibited from selecting a CSSU affiliated money market fund for automatic cash sweep if you are a plan as defined in Title I of the Employee Retirement Income Security Act of 1974, as amended, an individual retirement account, or another plan subject to the provisions of Section 4975 of the Internal Revenue Code of 1986, as amended ("ERISA").

For accounts where CSSU acts as Investment Adviser, advisory account assets invested in mutual funds shall be limited to non-fee paying share classes, such as institutional share classes, that do not pay any Rule 12b-1 or other fees to CSSU.

Except for ERISA accounts, CSSU may receive additional compensation for investments you make in ETPs, mutual funds, or offshore funds, including money market mutual funds, as follows:

- i. CSSU may receive fees when it or one of its affiliates provides investment advisory, distribution, administration, shareholder servicing, or other services to an ETP. The fees CSSU or an affiliate receives for those services are based on the total amount of clients' assets invested in the ETP. CSSU or an affiliate may also receive a management fee from the ETP based on the total amount of the client's assets invested in the ETP. This management fee is administered in addition to the wrap fee you pay to CSSU for the program for which the ETPs are purchased.
  - ii. CSSU receives compensation from offshore fund managers when CSSU's clients invest in offshore funds. The amount of compensation received by CSSU may vary depending on the offshore fund.
  - iii. Pershing receives revenue sharing payments from money fund providers for making the provider's funds available to clients. CSSU shares in these fees. The compensation received by CSSU may vary among money fund providers. These fees are not credited back to clients or applied to reduce the clients' fees or expenses. The recommendation of funds creates a potential for a conflict of interest to the extent that the additional compensation could provide a financial incentive to CSSU to recommend those funds that pay processing and revenue sharing fees over those that do not, so as to increase its revenue from other sources. CSSU may share such compensation with CSSU Relationship Managers. The fund's prospectus and statement of additional information includes details regarding compensation paid by each fund manager.
- i. III. Performance-Based Fees and Side-by-Side Management

CSSU does not charge performance-based fees for its investment advisory services, but unaffiliated investment managers may do so. Performance-based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An investment adviser charging performance fees to some accounts faces a variety of conflicts because the investment adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts on which it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the investment adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

## IV. Types of Clients

CSSU provides investment advisory services to high net worth and ultra high net worth individuals, family offices, trusts, estates, pension and profit sharing plans, banks, investment companies, charitable organizations, municipalities, corporations, foundations, endowments, and other business entities.

You must maintain the following minimum account size for the life of the account in order to participate in the investment advisory programs CSSU offers. Specific minimums depend upon the investment strategy you select.

- Discretionary Managed Portfolios, Portfolio Management Services, Guidance Advisory Portfolios Programs: \$250,000
- Family Wealth Management Services: \$10 million
- Investment Consulting Solutions and Discretionary Consulting Services: \$25 million
- Sub-Advisory Solutions Program: Between \$250,000 and \$1,000,000

In all of the above instances, the minimum investment amount may be waived at our discretion and is generally waived or reduced for our employees. If you withdraw assets from an account with the result that the value of the account is less than the required minimum, we may elect to terminate the account. We will not knowingly enter into an investment advisory relationship with a current or prospective client whose investment objectives we deem incompatible with those of our programs or those of the discretionary portfolio manager or whose investment guidelines we deem unduly restrictive. All new clients are required to enter into an investment advisory agreement prior to establishing an investment advisory relationship with CSSU.

The minimum investment for a HedgeFocus Fund is \$100,000. If you are a U.S. Person, you must qualify as both a "Qualified Purchaser" under the 1940 Act and "Accredited Investor" under the 1933 Act. In addition, you must have had a pre-existing relationship with CSSU for a minimum of six months. You will receive an offering memorandum which provides information about the HedgeFocus Platform and the selected HedgeFocus Fund, including the investment objectives of the Underlying Fund as well as the associated fees, allocations, risks and conflicts of interest. You must complete the relevant Subscription Agreement in order to invest in a HedgeFocus Fund. V. Methods of Analysis, Investment Strategies and Risk of Loss.



All mutual funds and investment strategies offered through the various programs described below are reviewed and approved by the Product Management Americas Managed Investment Products Committee.

## V. Methods of Analysis

- **Investment Consulting Solutions and Discretionary Consulting Services Program:** The IC Solutions and Discretionary Consulting Services Program due diligence process for selecting mutual funds, Alternative Investment Products, and third-party discretionary portfolio managers incorporates both quantitative and fundamental analysis. The team utilizes various analytical systems to analyze managers on a quantitative basis, taking into consideration such factors as attribution analysis, relative and absolute performance, risk-adjusted returns, peer comparisons, down market protection, tax-efficiency, manager tenure, portfolio turnover and fees. Both long-term and short-term performance histories will be evaluated. The fundamental analysis incorporates the information provided in a comprehensive written questionnaire as well as multiple interviews with potential IC Solutions and Discretionary Consulting Services Program participants, and may also include on-site visits. CSSU performs on-going monitoring of all IC Solutions and Discretionary Consulting Services Program participants by conducting quarterly quantitative performance analysis and qualitative reviews, which may consist of quarterly questionnaires, conference calls, on-site visits and discussions with industry contacts.
- **Financial Planning:** PB North America uses various non-proprietary financial planning tools to create the Plan. It may also rely upon proprietary asset allocation reports or models and proprietary research. In addition, PB North America obtains information about the economy, political and industry developments, market data, asset classes, specific securities and individual companies as well as credit, performance and risk analyses from various sources, including financial publications, company press releases, rating or pricing services, regulatory and self-regulatory reports and filings, Internal Revenue Code, regulations, and official guidance, or other public sources.
- **HedgeFocus Platform:** There is a two-step process in selecting an Underlying Fund to be offered on the HedgeFocus Platform:

Identifying Potential Underlying Managers: CSSU, as investment manager of the HedgeFocus Funds, is responsible for the selection of Underlying Managers. CSSU generally attempts to identify Underlying Managers for inclusion in the HedgeFocus Platform that are representative of a particular investment strategy or strategies. An Underlying Fund or Underlying Manager may be identified by CSSU through, among other things, the experience of its personnel and their contacts with investment managers, their network, industry conferences, database research, or contacts obtained by CSSU or any member, partner, shareholder, manager, director, officer, employee, agent or affiliate of CSSU.

Conducting Due Diligence on Underlying Managers: Once a potential Underlying Manager has been identified, CSSU performs due diligence on such Underlying Manager. CSSU's due diligence covers investment and operational due diligence, and is generally supplemented by quantitative analysis and an evaluation of the Underlying Manager's risk management capabilities. Selection criteria is driven by sourcing Underlying Managers who have demonstrated a sustainable investment process and proven infrastructure, across market cycles, where applicable. CSSU conducts periodic investment and operational due diligence reviews of each Underlying Manager offered through the HedgeFocus Platform.
- Methods of analysis applied to your accounts in the *Discretionary Managed Portfolios* and *Portfolio Management Services Programs* as well as the due diligence conducted on third-party portfolio managers in the *Preferred Advisors*, *Global Portfolio Strategies*, and *Discretionary Consulting Services Programs* are described in CSSU's Wrap Fee Brochure, which is available upon request.

## Investment Strategies

- HedgeFocus Funds available on the HedgeFocus Platform will invest in Underlying Funds that generally pursue one or more of the following principal investment strategies and styles:
  - **Convertible Arbitrage.** The Convertible Arbitrage strategy generally involves taking long positions in convertible securities and hedging those positions by selling short the underlying common stock. Convertible securities and warrants are priced as a function of the underlying stock, expected future volatility of returns, risk-free interest rates, call provisions, supply and



demand for specific issues, and, in the case of convertible bonds, the issue-specific corporate/Treasury yield spread. An Underlying Manager utilizing a Convertible Arbitrage strategy generally will purchase long positions in convertible securities and hedge a portion of the equity risk by selling short the underlying common stock in an effort to capitalize on pricing inefficiencies. Timing may be linked to a specific event relative to the underlying issuer or a belief that a relative mispricing exists between the corresponding long and short position.

- Distressed Securities. Underlying Managers utilizing a Distressed Securities strategy invest in, and may sell short, the securities of companies where the security's price has been, or is expected to be, affected by a distressed situation. Underlying Managers utilizing a Distressed Securities strategy invest primarily in securities and other obligations of companies that are encountering significant financial or business difficulties, including companies which (i) may be engaged in debt restructuring or other capital transactions of a similar nature while outside the jurisdiction of Federal bankruptcy law, (ii) are subject to the provisions of Federal bankruptcy law, or (iii) are experiencing poor operating results as a result of unfavorable operating conditions, over-leveraged capital structure, catastrophic events, extraordinary write-offs, or special competitive or product-obsolescence problems. These Underlying Managers will seek profit opportunities arising from inefficiencies in the market for such securities and other obligations.

Negative events, and the subsequent announcement of a proposed restructuring or reorganization to address the problem, may create a severe market imbalance as some holders attempt to sell their positions at a time when few investors are willing to purchase the securities or other obligations of the troubled company. If an Underlying Manager believes that a market imbalance exists and the securities and other obligations of the troubled company may be purchased at prices below the value of such securities or other obligations under a reorganization or liquidation analysis, the Underlying Manager may purchase such securities or other obligations. Profits of Distressed Securities strategies generally result from the broader market's lack of understanding of the true value of the deeply discounted securities. Results are generally not dependent on the direction of the markets, and have a low to moderate expected volatility.

- Equity Hedge. This strategy, which is also known as long/short equity, combines core long holdings of equities with short sales of stock or stock index options. Equity Hedge Underlying Managers construct portfolios that may be net long or net short depending on market conditions. Equity Hedge Underlying Managers generally increase net long exposure in bull markets and decrease net long exposure or go net short in bear markets. Generally, the short exposure of an Underlying Fund is intended to generate an ongoing positive return in addition to acting as a hedge against a general stock market decline. Stock index put options are also often used as a hedge against market risk. Profits are made when long positions appreciate and stocks sold short depreciate. Conversely, losses are incurred when long positions depreciate and/or the value of stocks sold short appreciates. The source of return of Underlying Funds traded pursuant to Equity Hedge strategies is similar to that of traditional long-only money managers on the upside, but these Underlying Managers use short selling and hedging to attempt to outperform the market on the downside.
- Equity Market-Neutral. Underlying Managers utilizing Equity Market-Neutral strategies attempt to generate consistent returns in both up and down markets by selecting positions with a total net exposure near zero. These Underlying Managers will hold a large number of long equity positions and an equal, or close to equal, number of offsetting short positions for a total net exposure of close to zero. A zero (or close to zero) net exposure is referred to as "dollar neutrality" and is a common characteristic of Equity Market-Neutral Underlying Funds. By taking long and short positions in equal amounts, Equity Market-Neutral Underlying Managers seek to neutralize the effect that a systematic change will have on values of the stock market as a whole.

Some, but not all, Equity Market-Neutral Underlying Managers will extend the concept of neutrality to risk factors or portfolio characteristics such as beta, industry or sector concentration, investment style, and market capitalization. It is characteristic of Equity Market-Neutral portfolios that stocks expected to outperform the market are held long, and stocks expected to underperform the market are sold short. Returns are derived from the long/short spread, or the amount by which long positions outperform short positions.

- Equity Short-Selling. Underlying Managers who utilize an Equity Short-Selling strategy attempt to profit from anticipated price declines in securities. A short sale involves the sale of a security that an Underlying Fund does not own in the hope of purchasing the same security (or a security exchangeable therefor) at a later date for a lower price. To make delivery to the buyer, the Underlying Fund must borrow the security and is obligated to return the security to the lender, which is accomplished by a later purchase of the security. An Underlying Fund will realize a profit or loss as a result of a short sale if

the price of the security decreases or increases, respectively, between the date of the short sale and the date on which the Underlying Fund covers its short position (*e.g.*, purchases the security to replace the borrowed security). A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss to the Underlying Fund. Equity Short-Selling strategies tend to perform poorly when equity markets are performing well, and therefore tend to be employed in conjunction with other, long-biased strategies.

- Event-Driven. Event-Driven (or “corporate life cycle investing”) strategies involve investments in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, industry consolidations, liquidations, reorganizations, bankruptcies, recapitalizations, share buybacks, and other extraordinary corporate transactions. Event-Driven strategies attempt to predict the outcome of a particular transaction as well as the optimal time at which to commit capital to it. The uncertainty about the outcome of these events creates investment opportunities for Underlying Managers who can correctly anticipate their outcomes. As such, Event-Driven strategies may involve merger arbitrage, distressed securities, value-with-a-catalyst, and special situations investing.

Some Event-Driven Underlying Managers may utilize a core strategy, while others will make investments opportunistically across the different types of events. Instruments include long and short common and preferred stocks, as well as debt securities, warrants, stubs, and options. Event-Driven Underlying Managers may also utilize derivatives such as index put options or put option spreads, to leverage returns and to hedge out interest rate and/or market risk. The success or failure of this type of strategy usually depends on whether the Underlying Manager accurately predicts the outcome and timing of the transactional event. Event-Driven Underlying Managers do not rely on market direction for results; however, major market declines, which could cause transactions to be repriced or terminated, may have a negative impact upon the Event-Driven strategy.

- Global Macro. Global Macro Underlying Managers attempt to identify extreme price valuations in stock markets, interest rates, foreign exchange rates, and physical commodities, and to make leveraged bets on the anticipated price movements in these markets. To identify extreme price valuations, Underlying Managers generally employ a top-down global approach that concentrates on forecasting how global macroeconomic and political events affect the valuations of financial instruments. These approaches may be systematic trend-following models or discretionary. Global Macro Underlying Managers have a broad investment mandate, with the ability to hold positions in practically any market with any instrument. Profits are made by correctly anticipating price movements in global markets and having the flexibility to use any suitable investment approach to take advantage of extreme price valuations. Underlying Managers utilizing a Global Macro strategy may use a focused approach or diversify across approaches. Often, they will pursue a number of base strategies to augment their selective large directional bets.
- Merger Arbitrage. Merger Arbitrage (also known as “risk arbitrage”) strategies involve investing in securities of companies that are the subject of some form of extraordinary corporate transaction, including acquisition or merger proposals, exchange offers, cash tender offers, and leveraged buy-outs. These transactions will generally involve the exchange of securities for cash, other securities, or a combination of cash and other securities. Typically, a Merger Arbitrage Underlying Manager purchases the stock of a company being acquired or merging with another company, and sells short the stock of the acquiring company. A Merger Arbitrage Underlying Manager engaged in merger arbitrage transactions will derive profit (or loss) by realizing the price differential between the price of the securities purchased and the value ultimately realized when the deal is consummated. The success of this strategy is usually dependent upon the proposed merger, tender offer, or exchange offer being consummated.

When a tender or exchange offer or proposal for a merger is publicly announced, the offer price or the value of the securities of the acquiring company to be received is typically greater than the current market price of the securities of the target company. Normally, the stock of an acquisition target appreciates while the acquiring company’s stock decreases in value. If an Underlying Manager determines that it is probable that the transaction will be consummated, it may purchase the shares of the target company and, in most instances, sell short the stock of the acquiring company. Underlying Managers may employ the use of equity options as a low-risk alternative to the outright purchase or sale of common stock. Many Underlying Managers employing a Merger Arbitrage strategy will hedge against market risk by purchasing put options or put option spreads on the Standard & Poor’s S&P500® index.

- Relative Value Arbitrage. Relative Value Arbitrage is a multiple investment strategy approach. The overall emphasis is on making “spread trades,” which derive returns from the relationship between two related instruments rather than from the

direction of the market. Generally, Underlying Managers utilizing Relative Value Arbitrage strategies will take offsetting long and short positions in similar or related instruments when their values, which are mathematically or historically interrelated, are temporarily distorted. Profits are derived when the skewed relationship between the instruments returns to normal. In addition, Relative Value Arbitrage Underlying Managers will decide which strategies offer the best opportunities at any given time and will weight that strategy accordingly in their overall portfolio. Relative Value Arbitrage strategies may include forms of fixed-income arbitrage (including mortgage-backed arbitrage), merger arbitrage, convertible arbitrage, statistical arbitrage, pairs trading, options and warrants trading, capital structure arbitrage, index-rebalancing arbitrage, and structured discount convertible arbitrage.

- Managed Futures/Commodity Trading Advisors. Underlying Managers who utilize a Managed Futures/Commodity Trading Advisors strategy will engage in speculative trading in the futures markets, options on commodity futures contracts, forward contracts, and spot markets for bonds and currencies. These Underlying Managers may trade diversified portfolios in U.S. and non-U.S. markets in an effort to capture passive risk premiums and actively profit from anticipated trends in market prices. Managed Futures/Commodity Trading Advisors Underlying Managers may rely on either technical or fundamental analysis or a combination thereof in making trading decisions and attempting to identify and exploit price trends. These Underlying Managers will attempt to structure a diversified portfolio of liquid futures contracts including, but not limited to, stock index, global currency, interest rate, metals, energy, and agricultural futures markets. Market selection may be based on liquidity considerations, legal constraints, market conditions, or data reliability of the market, depending on the Underlying Manager's internal policies. Underlying Managers trading Managed Futures/Commodity Trading Advisors strategies may trade either on the long or short side of the market, often on a 24-hour basis, and generally have more volatile performance than other traditional investments. However, Managed Futures/Commodity Trading Advisors strategies offer a unique return pattern when compared to traditional long-only or fixed-income investments.
- Multi-Strategy. Underlying Managers utilizing a Multi-Strategy approach generally engage in a broad range of strategies, including the strategies listed above. These Underlying Managers may also seek to take advantage of any number of event-driven opportunities. Investments may involve both U.S. and non-U.S. markets and may utilize significant amounts of leverage. Multi-Strategy Underlying Managers employ both long and short strategies, warrant and option arbitrage and hedging strategies, inter- and intra-market spread trading, futures, options, and currency trading.
- Other Investment Strategies. In addition, the Investment Manager may make available additional Funds, which may invest in Underlying Funds managed pursuant to new investment strategies not described herein, from time to time in its sole discretion.

Prospective investors must review the Underlying Fund offering documentation corresponding to a particular HedgeFocus Fund prior to investing in such HedgeFocus Fund as the aforementioned categories are only meant as a general guide to the investment strategies to be employed by the relevant Underlying Fund.

- Under the **Sub-Advisory Solutions Program**, sub-advisers may customize a strategy to suit your needs, or you may select from the following investment strategies managed by sub-advisers:
  - Quality Municipal Bond Portfolio: The investment objective is capital preservation while also seeking to maximize tax-exempt income.
  - Quality Taxable Municipals Portfolio: The investment objective is capital preservation while also seeking to maximize income.
  - Tax-Advantaged Fixed Income Portfolio: The investment objective is capital preservation while also seeking to maximize tax-exempt income.
  - Municipal Quality Intermediate Portfolio: The investment objective is to provide capital preservation, high levels of tax-free income, and strong total return by investing in investment-grade municipal securities of short and intermediate-term maturity.
  - Corporate Bond Short-Term Portfolio: The investment objective is to provide capital preservation and high levels of income by investing in investment grade corporate bond securities with a maximum maturity of 7 years.
  - Convertibles Portfolio: The investment objective is primarily preservation of capital, and secondarily to generate income with some growth of capital.

- The investment strategies for the *Discretionary Consulting Services, Discretionary Managed Portfolios, Portfolio Management Services, Guidance Advisory Portfolios, Preferred Advisors, Global Portfolio Strategies, Tactical Global Allocations, and Tactical Portfolio Solutions Programs* are described in CSSU's Wrap Fee Brochure, which is available upon request.

## Material Risks

For the strategies listed above, equities, ETPs, options, and fixed income securities are the primary investments. Always read the prospectus or other offering documents for a full description of risks associated with the particular investment. Some of the material risks are as follows.

- **Equities:** The price may rise or fall, sometimes rapidly or unpredictably, because of changes in a company's financial condition. These price movements may result from economic changes or macro factors such as the economic performance of a particular country, interest rate movements, and international developments. Sector or industry developments as well as changes in government regulations may affect equity prices.
- **ETPs:** Depending upon which program and investment strategy you have selected, your account may be invested in different types of exchange traded products ("ETPs"), including exchange traded funds ("ETFs") and exchange traded notes ("ETNs"). Depending on the investment objective and investment strategy of a particular ETP: (i) the investment adviser may not achieve the ETP's investment objective or be able to cause the ETP's performance to match that of the ETP's underlying index or other benchmark on either a daily or aggregate basis; (ii) ETPs may be offered at a discount of the value of the underlying holdings; (iii) although an ETP's shares are listed on a national securities exchange, there can be no assurance that an active trading market for the ETP's shares will develop or be maintained; (iv) ETPs that are non-diversified may invest in the securities of a limited number of issuers or concentrated in a particular market, country, industry, sector or asset class and may be more susceptible to adverse economic, market, political or regulatory occurrences; and (v) the risk that changes in an issuer's management performance, financial condition and the supply and demand for the issuer's products or services may adversely affect the value of the securities held by an ETP.

In addition, the value of commodity-linked ETPs may be affected by changes in overall market movements, commodity index volatility as well as changes in interest rates or sectors affecting a particular industry or commodity, such as weather, embargoes, tariffs and international economic, political and regulatory developments. A commodity-linked ETP may compete with other financial investments, including traditional debt and equity securities issued by companies in the commodity's particular industry and other securities backed by or linked to the particular commodity, direct investments in the commodity and investment vehicles similar to an ETP. Market and financial conditions, and other conditions beyond the ETP portfolio manager's control may make it more attractive to invest in other financial vehicles or to invest in such commodity directly, which could limit the market for the ETP shares and reduce the liquidity of the ETP shares. If the commodity ETP is physically backed, such as with gold or silver, there is a risk that some or all of the ETF's supply of the stored commodity could be lost, damaged or stolen. Access to the stored commodity could also be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Any of these events may adversely affect the operations of the ETP and, consequently, an investment in its shares. The ETP may not have adequate sources of recovery if its physical commodity is lost, damaged, stolen or destroyed and recovery may be limited, even in the event of fraud, to the market value of the commodity at the time the fraud is discovered.

ETNs are senior, unsecured, unsubordinated debt securities issued by an underwriting bank. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. When an investor buys an ETN, the underwriting bank promises to pay the amount reflected in the index, minus fees upon maturity. Thus an ETN has an additional risk compared to an ETF: upon any reduction of credit ratings, or if the underwriting bank goes bankrupt, the value of the ETN is adversely eroded and an investor can lose all or most of its investment.

- **Options:** You can lose the entire principal you invested as well as the premium you paid. Options can expire out of the money and be worthless. You can be forced to deliver shares at expiration. Options leverage can work against you as much as it can work for you. Terms, conditions and policies of the specific option contract, options exchanges or options brokers can change at any time.

- **Fixed Income:** The issuer of the fixed income security may be, or become, unable to make coupon and/or principal payments. Fixed income investments typically decline as interest rates rise. Inflation erodes the real value of interest payments. Some fixed income investments are callable, forcing early redemption.
- **Hedge Funds:** Typically, single manager hedge funds are exempt from registration as investment companies with the SEC and do not offer the same investor protections as traditional investments. Single manager hedge funds often use speculative investment and trading strategies. Their structure may raise complex tax issues and they frequently place restrictions on an investor's ability to withdraw funds or resell their investment. Hedge fund investors typically incur higher fees and expenses than other types of investments.
- **Liquidity:** Certain types of investment products held in your account may have restricted liquidity. For example, where a significant number of PB North America clients are invested in an ETF, a small cap stock, or in international or emerging market fixed income securities, the liquidity of that investment product may be impacted where a large number of clients seek to sell at the same time. Additionally, an investment in a HedgeFocus Fund through the Hedge Fund Feeder Platform provides limited liquidity since there are substantial restrictions on the ability of an investor to withdraw capital or transfer its interest.

Investing in securities involves risk of loss that you should be prepared to bear. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

## VI. Disciplinary Information

On November 16, 2012, CSSU and certain affiliates (collectively, "Credit Suisse") reached a settlement with the U.S. Securities and Exchange Commission ("SEC") that resolves two investigations relating to residential mortgage-backed securities transactions. More specifically, one investigation concerned Credit Suisse's settlement of claims against mortgage originators involving loans that had been included in a number of Credit Suisse securitizations and its alleged failure to disclose this practice to investors. The second investigation concerned Credit Suisse's obligations to demand repurchase by mortgage originators with respect to certain delinquent loans in two 2006 securitizations. CSSU's investment advisory business was not the subject of either investigation. In a settled administrative proceeding, the SEC charged Credit Suisse with engaging in negligent conduct under Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 and charged one CSSU affiliate with violations of Section 15(d) of the Securities Exchange Act of 1934 and Rules 12b-20, 15d-1, and 15d-14(d) thereunder. Credit Suisse neither admitted nor denied the SEC's allegations. As part of the settlement of both investigations, Credit Suisse agreed to pay approximately \$120 million, inclusive of \$65,804,330 in disgorgement, \$39,000,000 in civil monetary penalties, and \$15,200,000 in prejudgment interest.

In 2008, CSSU was part of a global settlement reached with a multistate task force composed of members of the North American Securities Administrators Association Inc. ("NASAA") and the New York Attorney General ("NYAG") regarding the marketing and sale of Auction Rate Securities. As part of the global settlement, CSSU agreed to pay a \$15,000,000 fine to be allocated among the NASAA and NYAG members. Payments have been made as each state or jurisdiction entered a formal settlement with CSSU. For more detailed information on the individual state settlements, please refer to CSSU's Form ADV Part 1.

On August 26, 2008, CSSU was censured by the Securities and Exchange Commission ("SEC") and ordered to pay a fine of \$1,000,000. The order stated that Donaldson, Lufkin & Jenrette Securities Corp., predecessor in interest to CSSU, failed reasonably to supervise one of its former registered representatives, R. Christopher Hanna, with a view to preventing and detecting his violations of the Federal Securities laws during a portion of the twelve-year period that it employed him from November 1989 to May 2001.

On April 28, 2003, the SEC filed a complaint against CSSU in the United States District Court for the Southern District of New York (the "District Court") alleging that (1) from July 1998 through December 2001, CSSU created and fostered an environment with conflicts of interest that, in some circumstances, undermined the independence of equity research analysts and affected the objectivity of the reports they issued, and (2) from 1999 until April 2001, CSSU, through its Technology Private Client Services Group, engaged in improper "spinning" activities relating to initial public offerings (the "Complaint"). The Complaint alleged violations of Sections 15(c) and 17(a) of the Securities Exchange Act of 1934 and Rules 15c1-2 and 17a-3 thereunder; Rules 2110, 2210, 3010 and 3110 of the Conduct Rules of the NASD Inc. ("NASD"); and Rules 342, 401, 440, 472, 476 of the New York Stock Exchange, Inc. ("NYSE"). Also on April 28, 2003, it was announced that CSSU, without admitting or denying the allegations in the

Complaint, except as to jurisdiction, submitted to the District Court a Consent to the entry of a Final Judgment, and in related actions, submitted an Acceptance, Waiver and Consent to the NASD and a Stipulation and Consent to the NYSE (together, the "Consents"). On October 31, 2003, the District Court entered a Final Judgment under which CSSU was enjoined from prescribed violations of Sections 15(c) and 17(a) of the Exchange Act and Rules 15c1-2 and 17a-3 thereunder, Rules 2110, 2210, 3010 and 3110 of the Conduct Rules of the NASD and Rules 342, 401, 440, 472, 476 of the NYSE and ordered to pay \$150 million in disgorgement and monetary fines; to pay an additional \$50 million to be used for the procurement of independent research; and to implement structural reforms and provide enhanced disclosure to investors, including a broad range of changes relating to the operations of its equity research and investment banking operations. Concurrently with the Consents, CSSU also entered into a Settlement Agreement and Consent Order with the State of Massachusetts with respect to the same conduct specified in the Complaint.

On January 22, 2002, CSSU, without admitting or denying any alleged violation, entered into coordinated settlements with NASD Regulation, Inc. ("NASDR"), currently the Financial Industry Regulatory Authority ("FINRA"), and the Securities and Exchange Commission ("SEC") resolving all outstanding investigations of CSSU into the allocation of shares in initial public offerings ("IPOs"). CSSU's investment advisory business was not the subject of either settlement.

CSSU consented to these settlements without admitting or denying any of the allegations made in the SEC's Complaint or the letter of Acceptance, Waiver and Consent ("AWC") filed with the NASDR. The SEC and NASDR alleged that, between April 1999 and June 2000, certain CSSU employees allocated many shares in IPOs to over 100 customers with whom they had improper profit-sharing arrangements. The NASDR and SEC alleged that certain employees allocated "hot" IPO shares to certain customers who paid the Firm a portion of the profits (between 33 and 65 percent) that they made when they sold their IPO stock, by paying inflated brokerage commissions on transactions unrelated to the IPO shares. The allegations did not concern any advisory clients of CSSU.

Under the terms of the coordinated settlement:

- CSSU paid a total of \$100 million. This amount included \$30 million in fines and civil penalties divided evenly between the SEC and NASDR, and a total of \$70 million in disgorgement, \$35 million of which was paid to the U.S. Treasury and \$35 million of which was paid to the NASDR, representing the monies obtained as a result of the conduct described by the SEC and NASDR. The SEC determined in this case that it was appropriate and in the public interest to pay funds to the U.S. Treasury rather than to any third parties.
- CSSU has adopted and implemented revised policies and procedures for allocating IPOs in its broker-dealer operations. The SEC and NASD have reviewed these policies and procedures. These include the establishment of an IPO Allocation Review Committee, a process for the pre-qualification of accounts before they are eligible to receive IPO allocations, and enhanced supervisory procedures, which may include the review of commissions paid by certain accounts receiving allocations around the time of the IPO. CSSU also retained an independent consultant to review the implementation of these policies and procedures one year from the date of the settlement.

In the NASDR settlement, CSSU, without admitting or denying any findings, consented to a censure and findings that it violated NASD Rules 2110, 2330, 2710, 3010 and 3110. These Rules (a) require broker-dealers to adhere to just and equitable principles of trade, (b) prohibit broker-dealers from sharing in the profits of client accounts except as specifically provided, (c) require a managing underwriter to file certain information that may have a bearing on the NASDR's review of underwriting arrangements, (d) require members to establish, maintain and enforce a reasonable supervisory system, and (e) require broker-dealers to maintain certain books and records. The NASDR AWC also found violations of Section 17(a) of the Securities Exchange Act of 1934 Act ("Exchange Act") and SEC Rule 17a-3, thereunder, which are incorporated by NASD Rule 3110 and similarly impose certain record keeping requirements on CSSU as a broker-dealer. In the SEC settlement, CSSU, without admitting or denying the allegations of the Complaint, consented to entry by the District Court for the District of Columbia of a final judgment that: (1) permanently enjoined CSSU, directly or indirectly, from violations of NASD Conduct Rules 2110 and 2330 and Section 17(a)(1) of the Exchange Act and SEC Rule 17a-3; and (2) ordered CSSU to comply with certain undertakings.

Neither the SEC nor NASDR made any allegations or findings of fraudulent conduct by CSSU. Further, neither the SEC nor NASDR alleged that any IPO prospectus was rendered false or misleading by CSSU's conduct or that this conduct affected either the offering price of an IPO or the price at which any IPO stock traded in the aftermarket.

## **VII. Other Financial Industry Activities and Affiliations**

CSSU is a registered broker-dealer. Each of our management persons is a registered representative of the firm. CSSU is also registered as a futures commission merchant.

### **Relationships with our Affiliates that are Significant to our Investment Advisory Business:**

Our affiliate, Credit Suisse Asset Management LLC, a registered investment adviser, acts as sub-adviser under the Sub-advisory Solutions Program and manages client assets on a discretionary basis.

If suitable, we may purchase on a discretionary basis or recommend to a client, as applicable, mutual funds, ETPs, or alternative investments where an affiliate acts as an issuer, investment adviser, sponsor, principal underwriter, distributor, administrator, transfer agent, general partner, managing member or provider of other services. Information about the related conflicts is provided in Sections II(C) above and, as applicable to your accounts in a wrap fee program, in CSSU's Wrap Fee Brochure, which is available upon request. Neither CSSU nor your Relationship Manager will receive any additional compensation in instances where we recommend or purchase for your account, as applicable, mutual funds or ETPs issued by one of our affiliates.

CSSU may solicit suitable clients to apply for loans extended by the New York Branch of Credit Suisse AG, a bank organized under the laws of Switzerland ("CS NYB"). Non-purpose loans are secured by assets in the client's account at CSSU (the "Collateral"). Credit Suisse AG is an affiliate of CSSU. CSSU earns a fee for each client it refers to CS NYB to whom a non-purpose loan is extended, and may receive other compensation for services provided in connection with the loans. These fees are in addition to any investment management fee which CSSU may earn for providing investment advisory services with respect to the Collateral.

## **VIII. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

### **Code of Ethics**

CSSU has implemented the Private Banking North America Investment Adviser Code of Ethics ("Code of Ethics"). The Code of Ethics sets forth the standards of ethical conduct to which CSSU and its employees must adhere. Access Persons, as defined by Rule 204A-1 of the Advisers Act, must adhere to certain holdings certification and employee personal trading policies. At the inception of their employment with CSSU, quarterly, and annually thereafter, Access Persons must certify that they have accurately disclosed all of their personal trading accounts. CSSU must receive duplicate copies of all trade confirmations and periodic statements of all transactions in such personal trading accounts. In order to prevent conflicts of interest as a result of securities transactions that an Access Person may place or recommend for your account, CSSU has implemented "black-out" periods for personal securities transactions. For one day prior to and one day after the Access Person places a trade or recommends that a trade be placed in your account, the Access Person is generally prohibited from executing a trade in the same security in his or her personal trading account. A copy of the Code of Ethics is available upon request.

### **Participation or Interest in Client Transactions**

CSSU introduces certain suitable clients to private investment opportunities offered by our affiliates as well as unaffiliated entities. CSSU generally receives compensation from the private investment partnerships for the introduction. Our affiliates may act as general partner of private investment partnerships in which you invest. Generally, these private investment partnerships operate private pooled investment funds that invest in public and private investment vehicles that may include leveraged buyout funds, exchange funds, venture funds, debt funds, fund of funds, and real estate funds as well as portfolios of marketable securities.

CSSU is engaged in many securities-related activities. It is possible that we will recommend to you the purchase or sale of investment products in which we or an affiliate has a financial interest. This financial interest may create an incentive for CSSU to recommend these products to you. CSSU receives underwriting commissions or discounts, retirement account and other account servicing fees and fees paid by investment companies, mutual funds, hedge funds, exchange traded funds, or other investment vehicles.



In relation to the HedgeFocus Platform, CSSU and its principals and affiliates, as well as other Credit Suisse entities, may serve as general partners, managers and/or directors of other investment funds and accounts and may engage in other business activities, including management of proprietary portfolios of hedge funds. CSSU, in its capacity as a broker dealer, solicits prospective investors in the HedgeFocus Funds and will be paid an upfront placement fee and sales commissions to compensate it for its services as placement agent, in addition to the Sponsor Fee it receives as the investment manager of each HedgeFocus Fund. The Sponsor Fee and placement fee are based upon the aggregate net asset value of the HedgeFocus Fund, which creates an incentive for CSSU to recommend investors to the HedgeFocus Funds. This arrangement represents a conflict of interest that investors should consider carefully.

One or more affiliates of CSSU may own an interest in one or more Underlying Managers and may have certain other business relationships with one or more Underlying Managers, Underlying Funds or affiliates thereof. Specifically, through its applicable subsidiaries, Credit Suisse (i) acts as a non-exclusive distribution agent for one or more Underlying Funds and other investment vehicles (and may in the future act for additional and future investment vehicles) directly or indirectly managed by one or more Underlying Managers; (ii) has (or may have) controlled investments in certain investment funds managed by one or more Underlying Managers; and (iii) provides (or may provide) prime brokerage, equities trading, fixed-income, investment banking, private banking, research, underwriting, derivatives, lending and other services to one or more Underlying Managers, Underlying Funds or affiliates thereof. As a result, CSSU, as Placement Agent, has an incentive to recommend to its clients that they invest in a HedgeFocus Fund corresponding to such Underlying Funds. In addition, subject to applicable law, CSSU or one of more of its affiliates may purchase or sell the securities of, or otherwise invest in, finance, advise or otherwise provide services to, issuers in which the Underlying Funds may have an interest. No client will, by reason of its investment in any HedgeFocus Fund, have any right to participate in any manner in any profits or income earned or derived by or accruing to CSSU or any of its affiliates, any Underlying Manager or any Underlying Manager's affiliates or their respective partners, directors, members, officers, or employees from the conduct of any business other than the business of the HedgeFocus Funds and their Underlying Funds, as applicable, or from any transaction in securities effected by CSSU or any of its affiliates, the Underlying Managers or any Underlying Manager's affiliates or their respective partners, directors, members, officers, or employees for any account other than that of the HedgeFocus Funds or their Underlying Funds, as applicable.

In addition, the underlying single manager hedge funds may invest in portfolio funds from which CSSU or its affiliates may receive fees as general partner, investment manager, sponsor, placement agent or other role.

Our employees may have long or short positions in investment products we recommend to you. Employees who refer clients to other divisions of Credit Suisse for products or services generally are eligible to receive incentive compensation for the referral, which does not increase the fees or expenses that you pay for the product or service.

CSSU maintains a Restricted List to monitor and restrict sales, trading and research activity with respect to the equity securities of any company placed on the list. The Restricted List is used when CSSU may have, or appear to have, inside information about the status of publicly announced but uncompleted transactions or to comply with SEC rules that limit the type of sales, trading and research activity that CSSU may conduct during the preparation for, and execution of, public offerings. When a company's securities are on the Restricted List, CSSU is generally prohibited from soliciting customer orders or effecting transactions for discretionary customer accounts.

CSSU renders investment advice and other investment management and broker-dealer services to many types of clients with respect to, and it may for its own account hold, purchase, sell or otherwise trade in and deal with, securities which are the same as or similar to those recommended to you. Therefore, CSSU may have potentially conflicting loyalties and responsibilities with regard to its various clients. CSSU maintains procedures that are designed not to disfavor any client account over other accounts in the execution and allocation of transactions. CSSU monitors the personal trading activity of its employees. An Employee Trading Policy is designed to detect and prevent conflicts and violations arising in this area.

CSSU effects transactions as broker or agent for clients and may also act as principal in transactions with advisory clients, but only where CSSU has obtained the advisory client's prior written consent to each such principal transaction.

We issue trade confirmations, as required under Rule 10b-10 of the Securities Exchange Act of 1934, that disclose compensation that we may receive in the form of underwriting fees, distribution fees, and mark-ups or mark-downs. Except as permitted by a class

exemption or an exemptive order, we will not engage in principal transactions for clients subject to Employee Retirement Income Security Act of 1974, as amended ("ERISA").

## **IX. Brokerage Practices**

CSSU has entered into an agreement with Pershing to provide execution, custodial, administrative and account reporting services to client accounts. CSSU, your portfolio manager or sub-adviser may effect transactions through CSSU or third-party brokers or dealers other than Pershing when it believes, in its sole discretion, that CSSU or such brokers or dealers may provide better execution than would be the case if Pershing executed the transaction.

CSSU may receive compensation from certain third-party broker-dealers or market centers for directing order flow in option and NMS securities. For securities, payment is on a per share basis; for options, payment is on a per contract basis. The market centers that pay for order flow are selected based upon the opportunity they provide for execution of orders at prices better than the National Best Bid or National Best Offer. Absent specific order routing instructions from customers and regardless of whether payment for order flow is received, CSSU transmits customer orders for execution to various exchanges and other market centers based on a number of factors, including: the ability of a market center to execute the orders at or superior to the National Best Bid and National Best Offer, the ability of a market center to provide price improvement opportunities, the speed of execution, the availability of efficient, automated transaction processing, liquidity enhancement opportunities, the speed of displaying better-priced limit orders, trading characteristics of the particular securities and the extent to which different markets may be more suitable for different types of orders or different securities. All such compensation will be retained by CSSU and is not shared with you or your Relationship Manager

The assets in your account may not be fully invested upon account opening. Rather, assets may be invested over time in accordance with the investment strategy you have selected.

CSSU's policies prohibit the allocation of shares of initial public offerings (IPOs) to clients in accounts for which CSSU provides investment advisory services.

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

CSSU does not have soft dollar arrangements.

### **Brokerage for Client Referrals**

CSSU does not consider, in selecting or recommending broker-dealers, whether it or any of its affiliates receive client referrals from such broker-dealer or third-party.

### **Directed Brokerage**

You may direct us to utilize brokers and dealers other than those we select to effect transactions for or with your account. In such instances, you will be solely responsible for negotiating the terms and arrangements on which you engage those brokers and dealers and we shall have no responsibility for reviewing those terms and arrangements. We will not seek better execution services or prices from these other brokers and dealers in connection with transactions for your account. We will not be able to "batch" or "aggregate" transactions for your account with transactions for our other clients. We will not monitor the performance of or the services provided by those brokers and dealers you designate. Directing brokerage likely will cost you more money. For example, in a directed brokerage account, you may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case because we may not be able to aggregate orders to reduce transaction costs.

### **Trade Aggregation**

Transactions for your account are typically effected independently of transactions for other clients. However, if CSSU is purchasing or selling the same securities for several clients at approximately the same time, we may, to the extent permitted by law, combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients' differences in prices and commissions or other transaction costs that might have pertained had such orders been placed independently. In these circumstances, the price and associated costs of such transactions will be averaged and allocated among

our clients (which may include persons associated with CSSU or clients in which persons associated with CSSU have invested) in proportion to the purchase and sale of orders placed for each client account on any given day. Such aggregation of orders may, on average, slightly reduce the overall costs of the transaction for you.

## **X. Review of Accounts**

Before an investment advisory account is opened with PB North America, a qualified Regional Office Manager, or his or her designee ("ROM"), reviews your investment objectives, financial circumstances and risk tolerance to determine if the account appears to be suitable for you. The ROM conducts monthly reviews of performance for select accounts (including investment advisory accounts). PB North America Compliance periodically conducts tactical reviews to assess risks in certain areas of the business which may include managed accounts.

Under the Family Wealth Management Services ("FWM") program, your account is reviewed on an annual basis to confirm that it is being managed in accordance with your investment guidelines. In addition, FWM reviews your account's individual portfolio holdings, current weightings, and ratings as well as its estate planning strategies, the current income tax status, and any material changes which may have taken place with respect to the individual clients over the last year (e.g. change in employment, major life events).

Under the Sub-Advisory Solutions Program, CSSU monitors the performance of the sub-advisers on a quarterly and as-needed basis.

The reviews conducted of accounts in the Discretionary Managed Portfolios, Portfolio Management Services, Guidance Advisory Portfolios, Preferred Advisors, Tactical Global Allocations, and Managed Portfolio Alternatives Programs is described in CSSU's Wrap Fee Brochure, which is available upon request.

### **Client Reports:**

Pershing provides you with a trade confirmation for each transaction effected for your account(s), as well as monthly statements reflecting positions and trading activity for each month in which such activity occurs in your account(s). For the Preferred Advisors, Global Portfolio Strategies, and Managed Portfolio Alternatives Programs, Pershing forwards confirmations to your selected portfolio manager(s) for each transaction effected in your account(s).

You receive quarterly and annual performance reports reflecting realized gains and losses, dividends, and interest in an account as well as a comparison of such information against an appropriate index. Your Relationship Manager periodically reviews account performance with you to determine whether such performance is in line with your goals, investment objectives, and risk tolerance.

## **XI. Client Referrals and Other Compensation**

Solicitors introduce potential investment advisory clients to us in exchange for a fee. We enter into written agreements with these solicitors and, as required by Rule 206(4)-3 of the Advisers Act, they must provide to clients, at the time of solicitation: (i) a copy of CSSU's Part 2A Disclosure Brochure as well as the Wrap Fee Brochure, as applicable; and (ii) a written disclosure statement on the solicitor's letterhead which shall: (a) advise the client of the nature of the relationship between us and the solicitor, (b) include a statement that we will compensate the solicitor for its solicitation services, (c) indicate the terms of such compensation arrangement, and (d) indicate whether client will be charged amounts in addition to the investment advisory fee in connection with the solicitation agreement between us and the solicitor.

## **XII. Custody**

Your custodian provides you with monthly statements reflecting positions and trading activity for each month in which such activity occurs in your account. You may also receive certain customized account statements or performance reports from us relating to your account. We urge you to review your monthly statements from your custodian carefully and compare them to any statements or reports you may receive from us. If there are any discrepancies, your monthly statements from your custodian are determinative. CSSU is deemed to have custody of your account assets because, as applicable, (i) we deduct advisory fees directly from your account or (ii) your assets are custodied with CSSU's affiliate, Credit Suisse AG.

### **XIII. Investment Discretion**

When you grant CSSU, your Relationship Manager as agent for CSSU, or a portfolio manager discretionary trading authorization over your account, such authorization will be subject to any special instructions or restrictions you may reasonably impose and will take into account your investment objectives and risk tolerance. Generally, you grant such discretionary trading authorization pursuant to the applicable Client Services Agreement.

### **XIV. Voting Client Securities**

For the Sub-Advisory Solutions, Discretionary Managed Portfolios, Guidance Advisory Portfolios, Portfolio Management Services, Tactical Global Allocations, and Tactical Portfolio Solutions Programs, except as may be required by applicable law, CSSU will not take any action or render any advice with respect to the voting of proxies solicited by or with respect to the issuers of securities in which your account assets may be invested.

Information about the voting of client securities for accounts in the Preferred Advisors, Global Portfolio Strategies, Managed Portfolio Alternatives, and Discretionary Consulting Services Programs is provided in CSSU's Wrap Fee Brochure, which is available upon request.

### **XV. Financial Information**

CSSU has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.