

# Disclosure Brochure

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This brochure provides information about the qualifications and business practices of Clear Harbor Asset Management, LLC (hereinafter "Clear Harbor" or "the Firm"). If you have any questions about the contents of this brochure, please contact Aaron Kennon at (212) 867-7310. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Clear Harbor is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Clear Harbor is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This section of the brochure discusses only the material changes that have occurred since Clear Harbor's last annual amendment dated March 5, 2020. The Firm updated Item 18 to reflect that Clear Harbor determined that it met the requirements to participate in the Paycheck Protection Program ("PPP") under the CARES Act and received a PPP loan. The Firm has no other changes to disclose in relation to this Item.

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## Item 4. Advisory Business

Clear Harbor is an investment adviser providing financial planning, consulting, and investment management services. Prior to engaging Clear Harbor to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Clear Harbor setting forth the terms and conditions under which Clear Harbor renders its services (collectively the "Agreement").

Clear Harbor has been registered as an investment adviser since January 2010. Aaron Kennon, Ian Armstrong, and D. Roger B. Liddell are the principal owners of Clear Harbor.

Clear Harbor had \$792,030,491 in assets under management as of December 31, 2019, \$790,264,287 of which was managed on a discretionary basis and \$1,766,204 of which was managed on a non-discretionary basis.

This disclosure brochure describes the business of Clear Harbor. Certain sections will also describe the activities of Supervised Persons. Supervised Persons are any of Clear Harbor's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Clear Harbor's behalf and is subject to Clear Harbor's supervision or control.

### Financial Planning and Consulting Services

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Clear Harbor may provide its clients with a broad range of comprehensive financial planning and consulting services (which may include non-investment related matters). These services are customized to the individual needs of the clients.

In performing its services, Clear Harbor is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Clear Harbor may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Clear Harbor recommends its own services. The client is under no obligation to act upon any of the recommendations made by Clear Harbor under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Clear Harbor itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Clear Harbor's recommendations. Clients are advised that it remains their responsibility to promptly notify Clear Harbor if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Clear Harbor's previous recommendations and/or services.

## **Investment Management Services**

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Clients can engage Clear Harbor to manage all or a portion of their assets on a discretionary or non-discretionary basis. Clear Harbor primarily allocates clients' investment management assets among individual debt and equity securities, mutual funds, exchange-traded funds ("ETFs"), and/or options in accordance with the investment objectives of the client. In addition, where appropriate, Clear Harbor recommends that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. Clear Harbor also provides advice about various types of investment held in clients' portfolios.

Clear Harbor tailors its advisory services to the individual needs of clients. Clear Harbor ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Clear Harbor if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Clear Harbor's management services.

## **Management of Collective Investment Vehicle**

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Clear Harbor is also the investment manager to Spectrum Value Partners, L.P., a Delaware limited partnership (the "Fund"). In addition, an affiliate of Clear Harbor acts as the general partner for the Fund. Interests in the Fund are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. Clear Harbor's affiliate has discretionary authority to determine the broker or dealer to be used by the Fund. The Fund currently relies on an exemption from registration in reliance on Section 3(c)(1) of the Investment Company Act of 1940, as amended (the "Company Act"). The Fund has been established to generate returns, primarily through investing in technology related securities and by selectively utilizing leverage, short selling, and options.

Participation as an investor in the Fund is restricted to investors that are both qualified clients pursuant to the requirements under Rule 205-3 under the Advisers Act, and "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended.

If eligible, Clear Harbor recommends that certain clients invest in the Fund where appropriate. All relevant information, terms and conditions relative to the Fund, including the compensation received by Clear Harbor or an affiliate, withdrawal rights, minimum investments, qualification requirements, suitability, risk factors, potential conflicts of interest, are set forth in the relevant confidential private offering memorandum (the "Memorandum"), investor agreement, and Subscription Agreement (the Memorandum, investor agreement and Subscription Agreement together the "Offering Documents"), which each investor is required to receive and/or execute prior to being accepted as an investor in the Fund. While the Fund is generally Clear Harbor's client, the term "client(s)" sometimes refers to the investors in the Fund.



Clear Harbor will devote its best efforts with respect to its management of both the Fund and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in the Fund, Clear Harbor may give advice or take action with respect to the Fund that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the Fund and certain individual client accounts, such investments will be allocated between the Fund and the individual client accounts pro rata based on the assets under management or in some other manner which Clear Harbor determines is fair and equitable under the circumstances to all of its clients.

## Item 5. Fees and Compensation

Clear Harbor offers its services on a fee basis which generally includes fees based upon assets under management and/or the performance of the client's portfolio.

### Financial Planning and Consulting Fees

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Although Clear Harbor currently does not charge fees for the financial planning and consulting fees it provides to its clients, the Firm may, in the future, charge a fixed fee for these services. These fees would be negotiable and largely determined by the level and scope of the agreed upon services.

If the client receiving financial planning and/or consulting services for a fixed fee engages Clear Harbor for additional investment advisory services, Clear Harbor may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging Clear Harbor to provide financial planning and/or consulting services, the client is required to enter into a written agreement with Clear Harbor setting forth the terms and conditions of the engagement. Generally, Clear Harbor requires one-half of the financial planning / consulting fee payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fee

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In the event the client determines to engage Clear Harbor to provide investment management services, Clear Harbor does so on a fee basis. Clear Harbor charges an annual fee based upon a percentage of the market value of the assets being managed by Clear Harbor. Clear Harbor's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which is incurred by the client. However, Clear Harbor does not receive any portion of these commissions, fees, and costs. Clear Harbor's annual fee is prorated and charged quarterly, in arrears, based upon either the average daily balance of the assets (if the custodian for those assets provides software for making the calculation), average month-end balance of the assets, or the value of the assets on the last day of the previous quarter. The annual fee varies (between 0.25% and 1.75%) depending upon the market value of the assets under management and the type of investment management services to be rendered. Clients are advised that a conflict of interest exists for the Firm to recommend that clients engage Clear Harbor for additional services for compensation, including rolling over retirement accounts or moving other assets to the Firm's management. Clients retain absolute discretion over all decisions regarding engaging the Firm and are under no obligation to act upon any of the recommendations.

## **Performance Fee**

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As further discussed in response to Item 6, Clear Harbor renders investment management services to *qualified clients* for a performance-based fee in accordance with the requirements set forth in applicable laws, rules, and regulations. For those clients, Clear Harbor charges its fees based upon a percentage of the market value of the assets being managed by Clear Harbor (“base fee”) in addition to a fee based on the performance of the account (“performance fee”).

Clear Harbor charges a performance fee up to twenty percent (20%) of the net gains in a client’s portfolio subject to a high-water mark. Clear Harbor also charges a base fee of one percent (1%) of the market value of the assets under management. Clear Harbor’s annual base fee is prorated and charged quarterly, in arrears, based upon the market value of the assets on the last day of the previous quarter. Clear Harbor’s performance fee is charged annually in arrears.

## **Fees for Investing in the Fund**

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For investments in the Fund, Clear Harbor charges its fees based upon a percentage of the market value of the assets in the Fund (“base fee”) in addition to a fee based on the performance of the Fund (“performance fee”). Clear Harbor’s performance fee is twenty percent (20%) of the net performance of the Fund, subject to a net loss carryover provision in addition to a base fee of up to one percent (1%).

Clear Harbor’s annual base fee is prorated and charged quarterly in arrears, based upon the market value of the assets on the last day of the previous quarter. Clear Harbor’s performance fee shall be charged annually in arrears. Further information regarding these fees is disclosed in the Offering Documents.

Clear Harbor, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

## **Fees Charged by Financial Institutions**

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As further discussed in response to Item 12 (below), Clear Harbor generally recommends that clients utilize the brokerage and clearing services of Pershing, LLC through Pershing Investment Manager Services (“Pershing”) for investment management accounts.

Clear Harbor may only implement its investment management recommendations after the client has arranged for and furnished Clear Harbor with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, Pershing, any other broker-dealer recommended by Clear Harbor, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the “Financial Institutions”).



Clients incur certain charges imposed by the Financial Institutions and other third parties such as brokerage commissions, transaction fees, margin costs, custodial fees, fees attributable to alternative assets, reporting charges, charges imposed directly by a mutual fund or ETF in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Clear Harbor's fee.

Clients generally provide Clear Harbor with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Clear Harbor. If a client chooses not to authorize Clear Harbor to debit its fee, Clear Harbor sends an invoice directly to the client.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a pro rata basis.

The Agreement between Clear Harbor and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. Clear Harbor's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Clear Harbor's right to terminate an account. Additions may be in cash or securities provided that Clear Harbor reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Clear Harbor, subject to the usual and customary securities settlement procedures. However, Clear Harbor designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Clear Harbor consults with its clients about the options and ramifications of transferring securities as necessary. Clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

As discussed in response to Item 5, above, Clear Harbor renders investment management services to qualified clients or the Fund for a performance-based fee. This fee arrangement raises conflicts of interest. The performance fee may be an incentive for Clear Harbor to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where Clear Harbor charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee when making investment allocations, etc.

Clear Harbor has procedures in place to ensure that any recommendations made are in the best interest of clients regardless of whether the client is paying a performance-based fee or different type of fee.

## Item 7. Types of Clients

Clear Harbor provides its services to individuals, pooled investment vehicles, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Account Requirements

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The Firm does not impose a stated minimum fee or minimum portfolio value for starting and maintaining an investment management relationship.

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

### Methods of Analysis

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Clear Harbor's primary methods of analysis are fundamental, technical and cyclical analysis.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. Clear Harbor will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Clear Harbor will be able to accurately predict such a reoccurrence.

*Cyclical analysis* is similar to technical analysis in that it involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that Clear Harbor is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### Investment Strategy

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Clear Harbor is a multi-asset class investment manager with a dual focus on both asset allocation and security selection. Clear Harbor's investment strategy is driven by both a "bottom up" and "top down" process.

When a client engages Clear Harbor, a representative meets with the client to understand risk tolerance, liquidity needs, total income, and net worth. Upon review of a client's financial situation, Clear Harbor crafts an asset allocation plan that seeks to invest the client's assets in securities which, in Clear Harbor's view, possess attractive risk reward characteristics.

Clear Harbor primarily invests in individual securities (including equities, fixed income, and options) issued by foreign and domestic corporations, governments, and municipalities. From a "bottom up" perspective, Clear Harbor rigorously reviews financial statements, business plans, presentations, and earnings releases when evaluating individual securities.

In addition to selecting individual securities, Clear Harbor formulates a big picture, "top down" view of the economic climate. Clear Harbor's economic view drives its asset allocation strategy, i.e. the mix of bonds

and equities within a portfolio, the duration of a fixed income portfolio, the mix of domestic and foreign assets. Clear Harbor also recommend the use of mutual funds and exchange-traded funds (“ETFs”), as appropriate, to implement its asset allocation strategy.

Clear Harbor may recommend the use of options for certain clients. Options seek to allow Clear Harbor to hedge (limit) certain losses on positions clients hold. The option allows Clear Harbor to buy or sell a security at a certain price (not the current market price). Clients pay a fee for the option. If the option falls outside the money (i.e., the market price of the security does not justify purchasing/selling the security at the option price), the client will lose the fee for that option.

### **Risk of Loss**

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#### *Market Risks*

The profitability of a significant portion of Clear Harbor’s recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Clear Harbor will be able to predict those price movements accurately.

#### *Volatility Risks*

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

#### *Cash Management Risks*

The Firm may invest some of a client’s assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

#### *Equity-Related Securities and Instruments*

The Firm may take long and short positions in common stocks of U.S. and non-U.S. issuers traded on national securities exchanges and over-the-counter markets. The value of equity securities varies in response to many factors. These factors include, without limitation, factors specific to an issuer and factors specific to the industry in which the issuer participates. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments, and the stock prices of such companies may suffer a decline in response. In addition, equity securities are subject to stock risk, which is the risk that stock prices historically rise and fall in periodic cycles. U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past and may do so again in the future. In addition, investments in small-capitalization, mid-capitalization and financially distressed

companies may be subject to more abrupt or erratic price movements and may lack sufficient market liquidity, and these issuers often face greater business risks.

## *Fixed Income Securities*

Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations and to price volatility.

## *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

## *Use of Private Collective Investment Vehicles*

As stated above, Clear Harbor may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is

an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by Clear Harbor in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to Clear Harbor will not be increased.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### *Short Selling and Options*

The Firm may utilize short selling and trading in options. Such investments can be extremely volatile and substantially increase the impact of adverse price movements on investments. There can be no assurance that the strategy adopted for short selling or investing in options will be profitable or that a client will not lose some or all of his investment.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

## Item 9. Disciplinary Information

Clear Harbor is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Clear Harbor does not have any required disclosures to this Item.



## Item 10. Other Financial Industry Activities and Affiliations

Clear Harbor is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

### **Affiliated Collective Investment Vehicle**

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As described in Item 4, Clear Harbor's affiliate, Spectrum Value Partners, LLC, is the general partner of the Fund, a Delaware limited partnership formed in August 2006 to engage primarily in the business of investing and trading in securities. Clear Harbor may recommend, on a fully disclosed basis, an investment in the Fund. Clients are advised that a conflict of interest exists to the extent that Clear Harbor recommends an investment in the Fund because of this affiliation. Nonetheless, Clear Harbor ensures that any recommendations to invest in the Fund are in the best interest of its clients.

## Item 11. Code of Ethics

Clear Harbor has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("Code of Ethics"). Its Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its associated Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders. The Code of Ethics also requires that certain of Clear Harbor's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings. However, the Firm's associated Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures.

Unless specifically permitted in Clear Harbor's Code of Ethics, none of Clear Harbor's Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Clear Harbor's clients.

When Clear Harbor is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Clear Harbor is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by open-end mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds.

As discussed above in response to Item 4, an affiliate of Clear Harbor is the general partner to the *Fund*. Clear Harbor may recommend, on a fully disclosed basis, that certain clients invest in the *Fund*. Further information regarding this conflict is disclosed in response to Items 4 and 6, above.

Clients and prospective clients may contact Clear Harbor to request a copy of its Code of Ethics.

## Item 12. Brokerage Practices

As discussed above, in Item 5, Clear Harbor generally recommends that clients utilize the brokerage and clearing services of Pershing.

Factors which Clear Harbor considers in recommending Pershing or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Pershing enables Clear Harbor to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Pershing may be higher or lower than those charged by other Financial Institutions.

The commissions paid by Clear Harbor's clients comply with Clear Harbor's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Clear Harbor determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Clear Harbor seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other Financial Institutions with whom Clear Harbor and the Financial Institutions have entered into agreements for prime brokerage clearing services. Clear Harbor periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

Transactions for each client generally will be effected independently, unless Clear Harbor decides to purchase or sell the same securities for several clients at approximately the same time. Clear Harbor may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Clear Harbor's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Clear Harbor's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Clear Harbor determines to aggregate client orders for the purchase or sale of securities, including securities in which Clear Harbor's Supervised Persons may invest, Clear Harbor shall do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Clear Harbor shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that Clear Harbor determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares will be allocated to the account with the smallest order or the

smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when such account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares will be reallocated to other accounts (this will be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations will be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Clear Harbor may exclude the account(s) from the allocation; the transactions will be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares will be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Clear Harbor in its investment decision-making process. Such research generally will be used to service all of Clear Harbor's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Clear Harbor does not have to produce or pay for the products or services.

#### **Software and Support Provided by Financial Institutions**

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Clear Harbor receives from Pershing, without cost to Clear Harbor, computer software and related systems support, which allow Clear Harbor to better monitor client accounts maintained at Pershing. Clear Harbor receives the software and related support without cost because Clear Harbor renders investment management services to clients that maintain assets at Pershing. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit Clear Harbor, but not its clients directly. In fulfilling its duties to its clients, Clear Harbor endeavors at all times to put the interests of its clients first

Clients should be aware, however, that Clear Harbor's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Clear Harbor's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Clear Harbor may receive the following benefits from Pershing through its Pershing Advisor Solutions division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Pershing Advisor Solutions participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

## **Brokerage for Client Referrals**

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Clear Harbor does not consider, in selecting or recommending broker/dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

## **Directed Brokerage**

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The client may direct Clear Harbor in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution, and Clear Harbor will not seek better execution services or prices from other Financial Institutions or be able to “batch” client transactions for execution through other Financial *Institutions* with orders for other accounts managed by Clear Harbor (as described below). As a result, the client 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. Subject to its duty of best execution, Clear Harbor may decline a client’s request to direct brokerage if, in Clear Harbor’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

## Item 13. Review of Accounts

For those clients to whom Clear Harbor provides investment management services, Clear Harbor monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Clear Harbor provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of Clear Harbor’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Clear Harbor and to keep Clear Harbor informed of any changes thereto. Clear Harbor shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Clear Harbor provides investment advisory services will also receive a report from Clear Harbor that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Clear Harbor.

Those clients to whom Clear Harbor provides financial planning and/or consulting services will receive reports from Clear Harbor summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Clear Harbor.

## Item 14. Client Referrals and Other Compensation

### Client Referrals

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If a client is introduced to Clear Harbor by either an unaffiliated or an affiliated solicitor, Clear Harbor may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Clear Harbor's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Clear Harbor by an unaffiliated solicitor, the solicitor shall provide the client with a copy of Clear Harbor's written disclosure statement which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of Clear Harbor shall disclose the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of Clear Harbor's written disclosure statement at the time of the solicitation.

### Other Economic Benefits

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Clear Harbor may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and is further disclosed in response to Item 12, above.

## Item 15. Custody

### Direct Fee Deduction

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Clear Harbor's Agreement and/or the separate agreement with any Financial Institution generally authorize Clear Harbor through such Financial Institution to debit the client's account for the amount of Clear Harbor's fee and to directly remit that management fee to Clear Harbor in accordance with applicable custody rules. The Financial Institutions recommended by Clear Harbor have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Clear Harbor. In addition, as discussed in Item 13, Clear Harbor also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Clear Harbor.

### Private Fund

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An affiliate of Clear Harbor acts as the general partner to the *Fund* and therefore the firm is deemed to have custody of client assets under current regulations. As an adviser with custody, Clear Harbor seeks to have the Fund audited on an annual basis by an independent public accountant that is both registered with, and subject to regulatory inspection by, the Public Accounting Oversight Board (PCAOB). For the Fund, the firm seeks to send the audited financials to each investor within 120 days of the Fund's fiscal year-end (180 days if deemed a fund of funds).

### Surprise Independent Examination

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As Clear Harbor is deemed to have custody over clients' cash, bank accounts or securities (for reasons other than those discussed above), the Firm is required to engage an independent accounting Firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. Any related opinions issued by an independent accounting Firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website. Clear Harbor does not have physical access to client funds as they are maintained with an independent qualified custodian.

### Standing Letters of Authorization

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Clear Harbor also has custody due to clients giving the Firm limited power of attorney in a standing letter of authorization ("SLOA") to disburse funds to one or more third parties as specifically designated by the client. In such circumstances, the Firm will implement the steps in the SEC's no-action letter on February 21, 2017 which includes (in summary): i) client will provide instruction for the SLOA to the custodian; ii) client will authorize the Firm to direct transfers to the specific third party; iii) the custodian will perform appropriate verification of the instruction and provide a transfer of funds notice to the client promptly after each transfer; iv) the client will have the ability to terminate or change the instruction; v) the Firm will have



no authority or ability to designate or change the identity or any information about the third party; vi) the Firm will keep records showing that the third party is not a related party of the Firm or located at the same address as the Firm; and vii) the custodian will send the client an initial and annual notice confirming the SLOA instructions

## Item 16. Investment Discretion

In most circumstances, Clear Harbor is given the authority to exercise discretion on behalf of clients. Clear Harbor is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Clear Harbor is given this authority through a power-of-attorney included in the agreement between Clear Harbor and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Clear Harbor takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

## Item 17. Voting Client Securities

Clear Harbor generally votes client securities (proxies) on behalf of its clients. When Clear Harbor accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Clear Harbor's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Clear Harbor's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Clear Harbor to request information about how Clear Harbor voted proxies for that client's securities or to get a copy of Clear Harbor's Proxy Voting Policies and Procedures. A brief summary of Clear Harbor's Proxy Voting Policies and Procedures is as follows:

- Clear Harbor has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Clear Harbor's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Clear Harbor devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Clear Harbor's vote on a particular solicitation but can revoke Clear Harbor's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Clear Harbor maintains with persons having an interest in the outcome of certain votes, Clear Harbor takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

## Item 18. Financial Information

Clear Harbor does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Clear Harbor is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Clear Harbor has no disclosures pursuant to this Item.

Clear Harbor determined that it met the requirements to participate in the Paycheck Protection Program (“PPP”) under the CARES Act and received a PPP loan. Clear Harbor is permitted to use the loan proceeds to support payroll for staff, including staff who perform advisory functions, and make other permissible payments, such as rent and utilities. The loan is forgivable provided the firm satisfies the terms of the loan program.



CLEAR HARBOR  
ASSET MANAGEMENT, LLC

Prepared by:



MARKETCOUNSEL®  
*The Adviser's Advisor®*