

Item 1 Cover Page

Fractal Investments LLC

226 Knollwood Drive
Glastonbury, CT 06033

This brochure (the “**Brochure**”) provides information about the qualifications and business practices of Fractal Investments LLC. If you have any questions about the contents of this brochure, please contact us at (617) 840-6501 and/or cao@fractalinvestments.net.

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 Fractal Investments LLC also is available on the SEC’s website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm’s CRD number is 311767.

Fractal Investments LLC’s registration as an investment adviser does not imply a certain level of skill or training.

[**January 2021**]

Item 2 Material Changes

This Brochure is Fractal Investments LLC's initial Brochure. There are, therefore, no material changes to report.

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Item 4 Advisory Business

FIRM DESCRIPTION

Fractal Investments LLC (hereinafter referred to as “**Fractal**”, “**we**”, “**us**”, or “**our firm**”) is a Delaware limited liability company with its principal office located in Glastonbury, Connecticut. The principal owners of Fractal are Chun Cao and Michael Farrell. The firm’s founders have been managing institutional portfolios and registered investment funds for over 20 years. Prior to establishing Fractal, Michael Farrell was the Head of U.S. Public Equity at Barings LLC, an institutional asset manager, and Chun Cao was a portfolio manager at Barings LLC.

Fractal specializes in value-added solutions for our clients.

Fractal is a newly established investment adviser with no assets under management.

ADVISORY PROGRAMS

Fractal offers discretionary portfolio management and investment services to:

- Separate accounts for institutional clients (“**Institutional Separate Accounts**”); and
- Separate accounts for private clients (“**Private Client Separate Accounts**” and together with Institutional Separate Accounts, “**Separate Accounts**”).

Fractal manages assets to the specifications of the guidelines established by our clients. Although Fractal seeks to accommodate reasonable investment restrictions or guidelines set by our clients, we may decline to accommodate certain investment restrictions that are incompatible with our firms’ investment philosophy or that may have an adverse effect on our ability to manage investments for a client.

Fractal enters into formal written agreements with our clients setting forth the terms and conditions under which we will provide our advisory services (the “**Investment Management Agreement**”). The Investment Management Agreement sets forth the scope of the services to be provided and the compensation we receive from the client for such services.

Fractal offers clients a range of investment strategies, each of which has stated investment objectives, policies and restrictions. For more information on our investment strategies, please refer to Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss of this Brochure.

Item 5 Fees and Compensation

ADVISORY FEES

The following information describes how Fractal is compensated for the services we provide to our clients. The specific manner in which fees are charged and the compensation we receive may differ between clients depending upon the individual Investment Management Agreement with each client. Fractal reserves the right to negotiate our compensation with clients depending on the investment strategy employed and the services provided, or waive all or a portion of our fees, in our sole discretion.

Investment Management Fees. In consideration for providing investment management services and pursuant to the terms of the Investment Management Agreement with the client, Fractal charges clients an annualized asset-based fee between 0.40% and 1.65% based on the investment strategy, and the client's assets under management ("**AUM**"), as valued by the custodian. Specific separate account fee structures, and the timing of payments are determined through negotiation with the client. While advisory fees are generally negotiable, our typical current annual advisory fees for each investment strategy are described below.

<u>Investment Strategy</u>	<u>Advisory Fees</u>
Energy Infrastructure	0.75%
Interest Rate Sensitive	0.65%
Inflation Sensitive	0.65%
Special Situations	0.75%
Target Volatility	1.65%

Fees for separate accounts are generally billed directly to Institutional Separate Account clients, or automatically deducted from Private Client Separate Account clients, on a quarterly basis, in arrears, but in each case will be agreed with the client in the Investment Management Agreement.

Additional Fees and Expenses. Clients will incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer through which account transactions are executed. For more information on our brokerage practices, please refer to Item 12 - Brokerage Practices of this Brochure.

The fees that clients pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or exchange traded funds (described in each fund's prospectus) to their shareholders. The fees charged directly by mutual funds and exchange traded funds will typically include a management fee and other fund expenses. Fractal does not receive any portion of the fees and expenses charged by mutual funds and/or exchange traded funds.

The custodian for an account will also charge fees in order to custody the assets of a client. Those fees are likewise distinct from the fees that Fractal charges and are born by the client.

To fully understand the total costs associated with their investment portfolio, clients should review all the fees charged by their custodian, our firm, broker/dealers, mutual funds, exchange traded funds, private funds, and others, and the tax implications of any investment strategy.

Termination. Investment Management Agreements with our clients may generally be terminated by either party upon thirty (30) days' written notice. Upon termination of our status as the client's investment adviser, Fractal will not take any further action with respect to the client's account(s) unless specifically notified by the client in writing. Clients will be responsible for instructing their broker-dealer and monitoring their account for the final disposition of assets.

Upon receipt of a proper notice of termination from the client, as described in the Investment Management Agreement, any earned fees will be billed and payable on a pro-rata basis, from the first date of the quarter through the date of termination.

Services to Investors Related to Fractal. Fractal provides portfolio management services to certain Fractal principals, employees and their family members ("*Fractal Affiliated Persons*") without charge, or for fees that are lower than the fees available to other clients.

Commissions. Fractal does not receive brokerage commissions from the sale of securities or other investment products. Our compensation for advising on securities and similar investments is limited to the advisory fees described above.

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

PERFORMANCE BASED FEES

Fractal does not charge a performance-based fees, and therefore, we do not engage in side-by-side management.

Item 7 Types of Clients

TYPES OF CLIENTS

Fractal offers investment advisory services to institutions such as insurance companies, registered and exempt investment companies, pensions, endowments and family offices. We also offer Private Client Separate Accounts to individuals, consistent with the client's selected investment objective.

ACCOUNT REQUIREMENTS

Fractal generally requires a minimum account balance for our discretionary investment management services, but we retain the discretion to waive an account minimum or to charge a minimum fee in lieu of requiring an account minimum, regardless of the account size. The following information lists the minimum account size necessary to open and maintain each type of client account.

Institutional Separate Accounts: a minimum account balance of \$5,000,000

Private Client Separate Accounts: a minimum account balance of \$100,000

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

METHODS OF ANALYSIS and INVESTMENT STRATEGIES

Fractal offers its clients a range of investment strategies using both quantitative analysis and fundamental analysis to evaluate securities. The portfolio managers analyze financial data and use investment insights to understand the fundamentals that are driving markets, sectors, industries and companies.

General Methodology

Most of our strategies are built by selecting a set of assets that we feel fit the objective we are trying to achieve. This is our investable universe.

Once a universe of assets is identified, the portfolio managers formulate criteria to determine which of those assets they deem attractive. Criteria can include the magnitude and growth of cash flows, the valuation of the entity, and the risk profile of the cash flow stream and the target entity.

Fractal will then create a portfolio that seeks to achieve the greatest return while minimizing potential loss of capital.

Risk management is integrated into our process in the selection of securities, and the weighting of securities in our portfolios. Once a portfolio is created, Fractal continuously monitors it with the goal of improving the portfolio risk return profile using the criteria described above.

Each investment strategy follows the general methodology and adopts a specific investment approach that meets the strategy's objectives. The following is a brief description of each investment strategy's objective and methodology.

Energy Infrastructure Strategy

Our Energy Infrastructure Strategy focuses on assets whose principal business is in midstream energy, transportation and storage of energy, or a related business. Fractal uses both quantitative analysis and fundamental analysis to evaluate and invest in securities, including master limited partnerships.

Criteria we use to select attractive assets are the magnitude and growth of cash flows, the valuation of the entity, and the risk profile of the cash flow stream. We also examine the indebtedness of the entity and the cash flows available to the partner or shareholder after interest payments.

Interest Rate Sensitive Strategy

Our Interest Rate Sensitive Strategy focuses on assets whose profitability and market return have been positively correlated with U.S. interest rates. Companies in the finance and insurance sector generally fit this profile as do some cyclical companies, and others. Each individual asset does not need to have a strong sensitivity to rates, but the portfolio as a whole is designed to benefit from investments in equities that have shown positive correlations to interest rates.

Criteria we use to select attractive assets are interest rate sensitivity, changes in the book value of the entity, valuation, growth rate, and quality of the earnings and balance sheet of each entity.

Inflation Sensitive Strategy

Our Inflation Sensitive Strategy focuses on assets whose profitability and market return have been positively correlated with either the expectation or realization of U.S. inflation rates. Companies in the materials sector generally fit this profile as do some cyclical companies and others. Each individual asset does not need to have a strong sensitivity to inflation, but the portfolio as a whole is designed to benefit from investments in equities that have shown positive correlations to inflation or inflation expectations.

Criteria we use to select attractive assets include the link between company profitability and inflation, the magnitude and growth of cash flows, the valuation of the entity, and the risk profile of the cash flow stream and the target entity.

Special Situations Strategy

Our Special Situations Strategy focuses on assets that are involved in a corporate action, such as a spinoff of a unit from a parent company, or a company that is difficult to value due to some other special circumstances. Special situations can include companies that have had or are having a change in leadership, or other transitional events. In this strategy each individual asset in our investable universe represents a unique situation.

The portfolio managers formulate criteria to determine which assets they deem attractive. Criteria include the magnitude and growth of cash flows, the valuation of the entity, and the risk profile of the cash flow stream and the target entity. For each investment, Fractal evaluates the “special situation” to identify if it meets the specified criteria.

Target Volatility Strategy

The Target Volatility Strategy seeks to reach a volatility target by investing in long and short positions in a broad range of securities. We allocate the portfolio among long and short positions to pursue capital appreciation over a complete market cycle with a targeted level of volatility.

Criteria we use to select attractive assets are either favorable company fundamentals or technical indicators, such as a positive price trend or potential for price reversal. We aim to control the

volatility of returns of the portfolio by buying put options and short selling securities. To mitigate the losses from a market downturn, Fractal often uses put option spread strategies and deep out-of-the-money put option strategies. The securities that are sold short to hedge the long positions are generally highly related to the price movements or factor exposures of the long positions. Such short positions are intended to both mitigate risks and improve the expected return of the strategy.

The Target Volatility Strategy may use futures, options, total return swaps, forward contracts, currencies, leverage, and exchange traded products to manage risk, gain access to liquidity, and achieve a certain level of volatility. The strategy may require frequent trading and there may be a high rate of portfolio turnover.

RISK OF LOSS

Investing in securities involves certain risks. There can be no assurance that an investment strategy will meet client goals and each client should be prepared to bear potential losses, including the loss of the entire portfolio. The investment performance and the success of any investment strategy or particular investment can never be predicted, and the value of a client's investments will fluctuate due to market conditions and other factors, including broader economic factors, political and geopolitical forces, and environmental and health related-issues. Such events or conditions may prevent Fractal from implementing its strategy effectively. There is no guarantee that any of the investments that our firm recommends will outperform the investment strategies used by other firms. Clients are responsible for ensuring that their portfolios are appropriately diversified to protect against the risk of loss.

The information contained in this Brochure is a general description of the nature and risks of the strategies and securities and other instruments that clients may include in their investment guidelines. Clients should not include these strategies and financial instruments in their guidelines unless they understand the risks of the strategies and financial instruments that they permit Fractal to utilize. Clients should also be satisfied that such strategies and financial instruments are suitable in light of the clients' circumstances, investment objectives and financial situation.

The following is a summary of the material risks for Fractal's investment strategies, security types and the investment techniques employed by our investment team. To the extent clients receive prospectuses, constituent documents, supplemental risk disclosures or other applicable documents pertaining to their strategy or account, clients should carefully read the specific risk disclosures contained therein. See also Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading of this Brochure.

The risk factors below apply to investments across a variety of the strategies offered by Fractal. However, whether the risk factors below are material to a specific client mandate will depend upon the investment guidelines and restrictions applicable to the particular portfolio. If a risk factor is particularly important to a strategy, we have listed that strategy in bold after the risk factor. However, each risk may apply to each strategy.

Business Risks: The companies identified for investment face a wide variety of operational risks, including competitive threats, regulatory changes, execution challenges, and responses to external

changes. For businesses listed on US exchanges, the Securities and Exchange Commission requires companies to disclose the most significant risk factors that could impact the business. However, these disclosures could be incomplete or inaccurate. An assessment of the relevant risk factors for any business could be incomplete or inaccurate. Both unforeseen and known risk factors may transpire, resulting in a deterioration of corporate performance.

Cash Management Risks: Fractal may invest temporarily in money market funds or other similar types of investments, during which time a client may be prevented from achieving its investment objective.

Corporate Securities: Equity and debt securities (stocks and bonds) represent partial ownership interests in companies and partial claims on their assets, respectively. The value of these interests and claims is theoretically dependent upon the performance of the underlying business and the cash flows generated by its operations. However, securities prices may fluctuate independently of these factors due to market factors or for no reason at all. Prices may not change as expected even when the prospects of the business have been correctly assessed.

Concentration Risk: Certain investment strategies focus on particular asset-classes, industries, sectors or types of investment. From time to time these strategies may be subject to greater risks of adverse developments in such areas of focus than a strategy that is more broadly diversified across a wider variety of investments. (**Special Situations Strategy** (“SSS”) and **Energy Infrastructure Strategy** (“EIS”))

Cybersecurity: The increasing reliance on internet-based programs and applications to communicate, conduct transactions and store data creates increased security risks. Targeted cyber-attacks, or accidental events, can lead to a breach in computer and data systems and access by unauthorized persons to sensitive transactional or personal information. Data taken in breaches may be used by criminals to commit identity theft, obtain loans or payments under false identities, and other crimes. Cybersecurity breaches at our firm or our service providers or counterparties may directly or indirectly affect clients, and could lead to theft, data corruption, interference with business operations, disruption of operational systems, interference with our firm’s ability to provide services, direct financial loss or reputational damage, or violations of applicable laws related to data and privacy protection.

Dependence on Key Personnel: Fractal is a small investment manager, and we rely on certain key personnel who may become unable to fulfill certain duties.

Derivatives: Privately negotiated total return swaps and similar agreements based on the performance of equity securities expose the portfolios to increased risks, including counterparty default, premature termination, adverse changes in market conditions, the substantial cost of creating and maintaining transactions, limited liquidity, and a lack of market transparency. (**Target Volatility Strategy** (“TVS”))

Energy, Oil and Gas Sector Risks: Investments in master limited partnerships (“MLPs”), energy infrastructure companies, and other companies operating in the energy, oil and gas sectors that primarily derive their income from investing in companies within the energy, oil and gas sectors

are subject to risks including fluctuations in commodity prices, natural disasters, regulatory changes and adverse political events. **(EIS and Inflation Sensitive Strategy “ISS”)**

Environmental, Social and Governance (ESG) Impact Considerations: Fractal may, in its discretion, take into account ESG considerations and political, media, and reputational considerations relating thereto. As a result, in certain circumstances we may not make investments when it would otherwise have done so, which could adversely affect the performance of a client’s portfolio. On the other hand, Fractal may determine not to take such considerations into account. The extent to which we take ESG considerations into account will vary, based on, among other things, the client’s investment objective, investment strategies and investment restrictions. Our determinations whether to take such considerations into account may have an adverse effect on a client’s portfolio. **(ISS)**

Equities Risk: Equity securities can decline in value over short or extended periods as a result of changes in a company’s financial condition and in overall market, economic and political conditions.

Exchange-Traded Fund Risks: ETFs may fail to accurately track the market segment or index that underlies their investment objective.

Index/Tracking Error Risks: The performance of a client account that tracks an index may not match, and may vary substantially from, the index for any period of time and may be negatively impacted by any errors in the index.

Indirect Investment in Non-U.S. Securities: Investments in depository receipts used to establish an indirect position in a foreign market are subject to the same risks as the securities underlying such instruments and may be subject to certain fees or expenses. **(ISS)**

Inflation Risk: Rising inflation reduces the purchasing power of the underlying currency, which is the dollar for U.S. based investments. This also applies to foreign investments, which may be denominated in other currencies.

Infrastructure Company Risk: Infrastructure companies are susceptible to various factors that may negatively impact their businesses or operations, including, without limitation, costs associated with compliance with and changes in applicable environmental, governmental and other regulations, rising interest costs in connection with capital construction and improvement programs, government budgetary constraints that impact publicly funded projects, the effects of general economic conditions worldwide, surplus capacity and depletion concerns, increased competition, uncertainties and delays with respect to the timing and receipt of government and/or regulatory approvals, uncertainties regarding the availability of fuel and other natural resources at reasonable prices, the effects of energy conservation policies, unfavorable tax laws or accounting policies, and high leverage. Infrastructure companies are also affected by innovations in technology that could render the way in which a company delivers a product or service obsolete, significant changes to the number of ultimate end-users of a company’s products, inexperience with and potential losses resulting from a developing deregulatory environment, increased susceptibility to terrorist attacks and natural or man-made disasters and other natural risks

(including earthquakes, floods, lightning, hurricanes, tsunamis and wind). Infrastructure companies also face operating risks, including the risk of fire, explosions, leaks, mining and drilling accidents or other catastrophic events. **(ISS and EIS)**

Interest-Rate Risk: Changes in interest rates may result in fluctuations in the prices of other investment vehicles. For example, when interest rates rise, fixed income securities prices fall.

Interim Underperformance: The long-term and concentrated nature of a strategy means that even if the strategy is “working properly” and the analysis is correct and leads to profitable realized outcomes, clients may experience multi-year periods of significant underperformance relative to market indexes and other investment strategies. This interim underperformance poses a significant risk of permanent capital loss for clients with short time horizons or who require withdrawals from their account.

International Investing: Our firm invests on behalf of our clients in securities of U.S. companies operating internationally, as well as international companies on both domestic and foreign exchanges. Businesses operating in other countries are subject to political and economic risks not present in the U.S., as well as currency risk. Stock markets outside of the U.S. may be more volatile. In some international markets, U.S. shareholders may not be able to exercise the same legal rights as foreign shareholders. There may be more limited access to information about international companies. **(ISS)**

Legal, Legislative and Taxation Risk: Business legal and regulatory regimes around the world continue to evolve. Legislative and regulatory changes or court rulings may adversely impact the value of investments, or the securities’ claim on the issuer’s assets and finances, or adversely affect our ability to conduct activities and transactions on your behalf. In addition, such changes may require adjustments to our operations or those of issuers or our clients or may result in increased costs and burdens related to client accounts. As regulations continue to change, we cannot always predict the effects that any new or changed regulations will have on our ability to invest in different markets or instruments on behalf of our clients. In addition, the rules dealing with taxation are constantly under review, resulting in revisions of resolutions and revised interpretations of established concepts as well as changes in law. Therefore, no assurance can be given that the currently anticipated income tax treatment of an investment will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of a client portfolio.

Leverage Risk: Leverage is the use of borrowed capital, through financial instruments or debt, to increase returns or finance assets. A strategy that utilizes short sales and derivatives will be leveraged due to the increased exposure to securities with limited or no initial cost. The use of leverage creates special risks and may significantly increase a client’s investment risk. Leverage creates an opportunity for greater yield and total return but, at the same time, will increase a client’s exposure to capital risk and interest costs. Any investment income and gains earned on investments made through the use of leverage can cause the value of a client’s account to increase more rapidly than would otherwise be the case. Conversely, the value of a client’s account can decrease more rapidly than would otherwise be the case. **(TVS)**

Liquidity Risk: Liquidity is the ability to convert an investment into cash. Investment assets are usually more liquid when established markets exist to trade those securities. In case of extreme market activity, it may not be possible to promptly liquidate certain assets. Also, sales of thinly traded securities could depress the market value of those securities and reduce the investments' profitability or increase its losses. (EIS)

Market Risk: Security prices may decrease due in response to direct and indirect events and market conditions, usually caused by factors independent of the specific attributes of the investment security.

Master Limited Partnership Risks: Investments in securities of MLPs involve risks that differ from investments in common stock, including limited control and limited voting rights; dilution; compulsory redemptions at an undesirable time or price because of regulatory changes; and greater price volatility. (EIS)

Model Risks: Models may be deficient in their design. Human and technological errors may occur in designing, writing, testing, and/or monitoring models and may be difficult to detect.

Omission of Risks: This Brochure does not provide a comprehensive list of every possible source of risk. Every potential outcome of an investment cannot be predicted, and it cannot disclose every potential risk factor for every investment to clients. The value of securities that our firm advises our clients to invest in may go up or down in response to factors not within our firm's control, including but not limited to the status of an individual company underlying a security, or the general economic climate. Clients may suffer losses for any reason or no discernible reason.

Operational Risk: Our firm is responsible for developing, implementing and operating appropriate systems and procedures, where required, to transmit all investment transactions and monitor risk on behalf of each client. Our firm will rely on its systems, procedures and other data processing systems to provide its services. Certain elements of our firm's operations are dependent upon systems operated by third parties. Our firm may not be in a position to verify the reliability of such third-party systems or data. Failure of or errors in such systems could result in mistakes or delays in the execution, confirmation or settlement of transactions for clients, or in transactions not being properly booked, evaluated or accounted for.

Options: Sellers of uncovered call options assume the risk of a theoretically unlimited increase in the market price of the underlying security while sellers of uncovered put options assume the risk of a decrease in the market price of the underlying security possibly to zero. Buyers of options risk losing their entire investment. (TVS)

Portfolio Turnover Risk: Depending on the particular strategy, a limit on the rate of portfolio turnover may or may not be established. Portfolio securities may be sold without regard to the time they have been held. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate, may act to reduce investment gains, or create a loss for clients and may result in increased tax costs for clients depending on the tax provisions applicable to such clients. The after-tax impact of portfolio turnover is not considered when making investment decisions for a client. (TVS)

Preferred Stocks Risk: A preferred stock is a blend of the characteristics of a bond and common stock. Preferred stock offers the higher yield of a bond and has priority over common stock in the event of a liquidation but does not have the seniority of a bond and, unlike common stock, preferred stock's participation in the issuer's growth may be limited. Preferred stock has preference over common stock in the receipt of dividends and in any residual assets after payment to creditors should the issuer be dissolved. Although the dividend on a preferred stock may be set at a fixed annual rate, in some circumstances it can be changed or omitted by the issuer. Because preferred stocks represent an equity ownership interest in an issuer, the value of preferred stock usually reacts more strongly than bonds and other debt instruments to actual or perceived changes in an issuer's financial condition or prospects, fluctuations in the equity markets, and performance of the underlying common stock. **(EIS)**

Public Health Crisis Risks: A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent global outbreak of COVID-19, could have an adverse impact on global, national and local economies, which in turn could negatively impact our investments and strategies. Disruptions to commercial activity resulting from the imposition of quarantines, travel restrictions or other measures, or a failure of containment efforts, may adversely affect our investments in various ways, including but not limited to, decreased demand, supply chain delays, disruptions or staffing shortages. The outbreak of COVID-19 has contributed to, and may continue to contribute to, volatility in financial markets, including market liquidity and changes in interest rates. A continued outbreak may have a material and adverse impact on our investment returns. The impact of a public health crisis such as the COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to the performance of our investments and strategies.

Reinvestment Risk: This is the risk that future gains may be reinvested at less favorable (lower) rates of return than currently available.

Risks Relating to the Operation of Markets: Client accounts may incur losses in the event of the early closure of, complete closure of, suspension of trading in, or similar interruptions affecting one or more domestic or international markets, trading venues, or clearinghouses on or through which we trade on behalf of our clients.

Short Sales: Short sales are a strategy of borrowing securities not currently owned to sell in the marketplace. A trader will then purchase the same types of securities in the marketplace at a later date to return to the lender of the securities before such securities are required by the lender. There is a theoretically unlimited risk of an increase in the market price of securities sold short. The risks of short selling are also increased by lenders' ability to "re-call" securities borrowed by Fractal. Limitations or bans on short selling impede the ability to fully execute Fractal's trading strategies. **(TVS)**

Short-Term Purchase Risk: Certain investment strategies purchase securities with the intent to sell them within a relatively short period of time (typically a year or less). Short-term purchasing is done in an attempt to take advantage of conditions that may soon result in a favorable price swing in the securities purchased. A risk in a short-term purchase strategy is that, should the

anticipated price swing not materialize, the portfolio can be left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Strategy: Our firm cannot guarantee that its recommendations will be implemented at all times and it may make investments not in keeping with the general description provided in this Brochure. There can be no guarantee that suitable investment opportunities will be available at all times.

Systemic Risk: Our firm relies on the stability of the overall financial system to implement its investment strategy. The security of client assets depends on the solvency of their chosen custodian. In the event of a disruption to the custodian's business or the overall functioning of securities markets, including any securities clearing houses, middleware providers or other system infrastructure providers, our firm may be unable to implement its investment services and clients may experience a significant or complete loss of their capital.

Valuation Risks: In valuing assets that lack a readily ascertainable market value, Fractal or its agent may utilize dealer-supplied quotations or pricing models based on methodologies that are subject to error. (EIS)

Clients should be aware their investment is not guaranteed and understand that there is a risk of loss of value in their investment.

Item 9 Disciplinary Information

REQUIRED DISCLOSURES

Under the Investment Advisers Act of 1940, as amended (the “*Adviser’s Act*”) you are entitled to know of any material disciplinary events regarding Fractal or any of its management persons. Fractal has no legal or disciplinary events to disclose in response to this item.

Item 10 Other Financial Industry Activities and Affiliations

OUTSIDE BUSINESS ACTIVITIES

None of Fractal, its employees and management persons are registered or has registered or have an application pending to register as a broker-dealer or registered representative of a broker-dealer, futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

AFFILIATED ENTITIES

Fractal does not have any business relationships with other entities that create a material conflict of interest for our clients.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

CODE OF ETHICS

Fractal has adopted a Code of Ethics (the “**Code**”) to both set forth a standard of business conduct for our firm and all our associated persons and comply with Section 204A of the Advisers Act and Rule 204A-1 of the Advisers Act. The Code is rooted in the notion that Fractal has a fiduciary duty to its clients to act in their best interests. The Code aims to set out ideals for integrity, objectivity, competence, fairness, confidentiality, professionalism and diligence for our firm and our associated persons. Specifically, the Code addresses, among other things:

- confidentiality of client information and fiduciary obligations;
- compliance with applicable law and regulations;
- prohibition on market manipulation;
- prohibition on insider trading;
- prohibition on employees from taking personal advantage of opportunities belonging to clients;
- preclearance of personal trading and reporting obligations;
- restrictions on the giving or receiving of gifts and entertainment and reporting obligations;
- limitations on political contributions by certain employees and reporting obligations;
- reporting and approval requirements for certain outside business activities; and
- duty to report, and accountability for, violations of the Code.

The Chief Compliance Officer, Chun Cao, monitors compliance with these and all other aspects of the Code and related firm policies. Annually, we require all employees and other persons with sufficient access to relevant data as deemed by the Chief Compliance Officer (collectively, “**Access Persons**”) to certify that they have read, understand and will comply with the Code.

Clients and prospective clients may request a full copy of our firm’s Code by contacting our firm using the contact information on the cover page of the Brochure.

PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

Fractal and/or Access Persons may invest in the same and/or different securities than those that are recommended to and/or purchased for our clients. In general, many of the securities in which Fractal invests on behalf of its clients are highly liquid, such that any trading on behalf of Fractal, its clients or its Access Persons would not generally be expected to have an effect on the markets for such securities. However, Fractal has adopted procedures designed to ensure that the personal securities transactions, activities and interests of Fractal and its Access Persons will not interfere with our ability to make investment decisions in the best interest of our clients.

PERSONAL TRADING

Fractal maintains and enforces written policies and procedures reasonably designed to prevent the misuse of trading information and material non-public information by our firm or any Access Persons of our firm with regards to their personal securities transactions. Personal trading activities are monitored to reasonably prevent conflicts of interest between our firm and our clients. Among other things, the Personal Trading Policy defines “reportable accounts” and “reportable securities,” and requires Access Persons to

- upon hire and quarterly thereafter disclose/report:
 - All reportable accounts that are beneficially held; and
 - All securities that are beneficially held.
- quarterly disclose/report all transactions in “reportable securities”; and
- pre-clear any personal transaction in a “reportable security”.

All employees of Fractal are required to handle their personal securities transactions in such a manner as to avoid any actual or potential conflicts of interest or any abuse of position of trust and responsibility.

Item 12 Brokerage Practices

SELECTION OF BROKER-DEALERS

Fractal seeks to effect securities transactions on behalf of its clients in such a manner that the client’s total costs in a given transaction are the most favorable to the client under the circumstances (“best execution”). We aim to select the brokers using our best judgement with respect to which broker is able to offer best execution. Best execution is not necessarily achieved by using the broker with the lowest commission, but rather selecting the broker that is able to provide the best qualitative execution for the client.

Fractal considers a number of factors prior to using a particular broker-dealer, including but not limited to, their familiarity with the securities to be sold or purchased, their execution skills, order-flow capabilities, their presentation of information regarding the market or instrument, their fairness in resolving disputes, their commission rates or other fee schedules, their level of net capital (financial strength) and excess SIPC and other insurance coverage. Unless a separate account client directs the use of a particular broker-dealer or restricts usage of a particular broker-dealer, Fractal has the authority to select broker-dealers to be used to effect trades and the commission rates to be paid.

DIRECTED AND RESTRICTED BROKERAGE AND THE EFFECT ON ALL CLIENT ACCOUNTS

For those clients who direct Fractal to use certain broker-dealers or restrict our use of certain broker-dealers, Fractal’s freedom to choose a particular broker-dealer is limited. As a result, Fractal may be unable to achieve best execution. In such case, the client account may be disadvantaged by paying higher fees, larger spreads or higher prices. In certain circumstances,

orders for clients with directed or restricted brokerage instructions may be delayed in order to achieve orderly execution for unrestricted clients. It is possible that such delay could negatively impact clients with restricted or directed brokerage arrangements. In addition, directed or restricted brokerage instructions may limit the ability of Fractal to aggregate orders for a client (See *Aggregation and Allocation* of this Item 12 below).

Furthermore, directed brokerage clients may adversely affect Fractal's ability to manage unrestricted client accounts most efficiently. Trades with directed brokers typically do not generate "soft dollars". To the extent that Fractal clients direct brokerage, they will not bear the cost of the "soft dollar" program but may nevertheless benefit from the research and services paid for with "soft dollars". See *Research and Other Soft Dollar Benefits* of this Item 12 below for a description of Fractal's use of "soft dollars").

RESEARCH AND OTHER SOFT DOLLAR BENEFITS

Our investment professionals use research services provided by broker-dealers in their decision-making process. Research services include, but are not limited to, economic forecasts, investment strategy advice, statistical services, company and market data. Some of these services are paid for using "soft dollars". Soft dollars are essentially brokerage credits generated by trading activity with a broker-dealer. The commissions paid by a client with respect to transactions that generate soft dollars may be in excess of the amount that another broker-dealer may have charged for the same transaction. The credits or soft dollars can then be used to purchase services from the broker-dealer. The broker-dealer may provide these products or services directly or may purchase them from a third party for Fractal.

An inherent conflict of interest exists with respect to the use of soft dollars because soft dollars can replace cash payments that would otherwise be paid by Fractal. Thus, Fractal has an incentive to generate and use soft dollars rather than pay for such services directly. In order to manage the conflict of interest created by the usage of soft dollars, Fractal has policies and procedures in place to ensure that it may only enter into transactions on behalf of clients that generate soft dollars if Fractal employees determine in good faith that the amount of commission is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer. In addition, soft dollar arrangements are only entered into for services and products that qualify under the safe harbor provisions set forth in Section 28(e) of the Securities Exchange Act of 1934.

Products and services purchased through the use of soft dollars are used for the benefit of all clients collectively, and a particular account may not benefit from services Fractal purchased with the account's soft dollars. Fractal's Chief Compliance Officer monitors and evaluates Fractal's use of client commissions to purchase research and brokerage services.

OTHER BROKER-DEALER SERVICES

Fractal receives products or services from broker dealers other than execution that assist our firm in managing and administering client accounts. Additional services include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitation of trade execution, facilitation of payment of our fees from clients' Fractal Investments LLC

accounts, and assistance with back office functions, record keeping and client reporting. These services may be used to service all or a substantial number of client accounts.

Fractal may also utilize the prime brokerage offerings of certain broker dealers on behalf of its clients, this may include borrowing securities for short sales, cash management, stock loans for leverage and other services. Additional fees may apply to such arrangements. Clients may elect to participate or restrict usage of the prime services.

While the benefits we receive from a given broker dealer does not depend on the amount of brokerage transactions directed to them, as a fiduciary we are required to disclose that there may be a potential conflict of interest when our firm selects or recommends to our clients a particular broker dealer from whom we are also receiving other services.

Fractal does not enter into directed brokerage arrangements with broker-dealers as compensation for client referrals. However, so long as it is consistent with Fractal's best execution obligation, Fractal may utilize a referring broker-dealer to effect securities or other transactions for a client.

AGGREGATION AND ALLOCATION

Fractal may aggregate orders for the purchase or sale of the same security from different client accounts if we believe that the purchase or sale of the same security is in the best interest of more than one client. We will aggregate trades when we believe that it is consistent with our duty to seek best execution for our clients. Factors that may influence whether or not to aggregate a trade include the timing of the various portfolio needs to gain or reduce exposure to a security, client cash flows, and the restrictions on execution that a client may place on an account.

When we allocate aggregated trades to client accounts, we will do so in accordance with our allocation policy, which seeks to treat each account fairly and equitably. In general, trades will be allocated on a pro rata basis. However, from time to time or in certain circumstances, pro rata treatment may not treat all accounts equitably. In such circumstances, our portfolio manager may seek an exception from the Chief Compliance Officer. Such instances will be rare and only approved to the extent that it is believed that all clients will be treated fairly and equitably under the exception and not otherwise.

To the extent possible, orders are pre-allocated prior to execution. However, there may be instances where pre-allocating certain trades may not be feasible or practicable given the unique nature of the respective market. In these instances, efforts will be made to ensure that such allocation will not unfairly discriminate against or advantage one account over another.

TRADE ERRORS

Investment management is complex and involves a number of activities, including investment analysis, portfolio construction, trading, reconciliation, and monitoring. As a result, errors do occur, even with appropriate policies and procedures in place to reduce such mistakes. Sometimes, these mistakes cause losses in our client accounts. However, not all losses require compensation to be paid. Fractal generally considers an error to be compensable when it results from an action

or omission that does not meet the applicable standard of care and that results in a loss to the client. Any errors that are discovered are reportable to the Chief Compliance Officer upon discovery. Fractal makes determinations with respect to whether an error has occurred and whether such error necessitates compensation to the client pursuant to its error policies on a case-by-case basis, in its discretion. We may consider a number of relevant facts and circumstances, including, without limitation, the nature of the service being provided at the time of the incident, whether third parties' actions or inactions contributed to the incident, contractual and legal restrictions and standards of care, whether a client's investment objective was contravened, the nature of a client's investment program, whether a contractual guideline was violated, the nature and materiality of the relevant circumstances, and the materiality of any resulting losses. If Fractal determines that a compensable error has occurred, Fractal generally compensates the client for the direct monetary losses the error caused in the client's account.

Where we have determined that a client guideline has been contravened or a material loss has been suffered by the client, we will notify the client as soon as practical. However, if we have determined that there is no guideline contravention or compensable error, we typically do not notify clients of such events.

Item 13 Review of Accounts

ACCOUNT REVIEWS

Fractal portfolio managers monitor portfolios they manage on a daily basis. We conduct reviews of the portfolios we manage with our clients on a quarterly basis, or more frequently if agreed with our clients. Additional reviews may take place during significant market events.

ACCOUNT REPORTS

Clients receive quarterly reports summarizing their account and investment results from their custodian. Additionally, Fractal will also provide such written account reporting as is agreed upon with individual clients.

Item 14 Client Referrals and Other Compensation

CLIENT REFERRALS

Our firm does not currently compensate third-parties (or "solicitors") to promote the investment advisory services offered by our firm.

OTHER COMPENSATION

Fractal does not receive any economic benefits from parties other than our clients in exchange for our provision of investment advice or other advisory services.

As described above in Item 12 – Brokerage Practices under *RESEARCH AND OTHER SOFT DOLLAR BENEFITS*, Fractal typically receives research and brokerage services from broker-dealers who execute trades for client accounts.

Item 15 Custody

CUSTODY OF CLIENT FUNDS AND SECURITIES

Fractal does not hold physical custody over client assets or accounts. Investments and cash in Fractal’s separate accounts are held by third-party custodians. We do not have the authority to obtain possession of assets. However, for accounts where Fractal is able to deduct fees from client accounts, Fractal is deemed to have custody under Rule 206(4)-2 of the Advisers Act (the “*Custody Rule*”). Generally, in order to comply with the Custody Rule, Fractal will ensure that clients hold assets with a qualified custodian. Qualified custodians will provide quarterly or more frequent accounts statements to clients.

Clients should carefully review any statements that we provide against those that their qualified custodian provides.

Item 16 Investment Discretion

DISCRETIONARY AUTHORITY

Fractal manages client securities portfolios on a discretionary basis. Fractal is granted limited discretionary authority in writing by the client at the outset of the advisory relationship. This limited discretionary authorization gives Fractal the authority to manage the client’s investment assets in its sole discretion and without consulting with the client in advance, subject to the investment objectives, guidelines and restrictions set by the client. For more information on Fractal’s authority and limitations on its authority see Item 4 – Advisory Business and Item 5 – Fees and Compensation under Termination.

Item 17 Voting Client Securities

AUTHORITY TO VOTE CLIENT PROXIES

Fractal votes securities held in client accounts when given the discretion to do so. The authority to vote securities is typically set forth in the Investment Management Agreement. Fractal believes that proxies should be acted upon (voted or abstained) solely in the best interest of its clients in order to reach their investment objectives. To implement this, Fractal engages a proxy service provider (“*Proxy Firm*”) that is responsible for processing and maintaining records of proxy votes. In addition, the Proxy Firm will retain the services of an independent third-party research provider (“*Proxy Research Provider*”) to provide research and recommendations on proxies. Fractal generally will vote proxies in accordance with the recommendations of the Proxy Research

Provider or with the Proxy Research Provider's proxy voting guidelines ("***Proxy Guidelines***") in absence of a recommendation. In circumstances where the Proxy Research Provider has not provided recommendations the proxy will be analyzed on a case-by-case basis. There are also times when it is in the best interest of clients to vote proxies against the Proxy Research Provider's recommendations or its Proxy Guidelines. In such events we will vote in accordance with an authorized investment person so long as there is no known material conflict of interest. A conflict is defined as any position, relationship or interest, financial or otherwise, of Fractal or an employee that could reasonably be expected to affect the independence or judgment concerning proxy voting.

Clients who would like to obtain a copy of our firm's proxy policies and procedures and/or a report summarizing how their securities would be voted may contact our firm at contact information provided on the cover of the Brochure.

LITIGATION AND CLASS ACTIONS

Fractal generally does not participate in litigation, or make filings in class action cases, in each case, related to the investments that are or were held in Separate Accounts.

Item 18 Financial Information

REQUIRED DISCLOSURES

Fractal has no financial commitments that would impair our firm's ability to meet our contractual and fiduciary commitments to our clients and has not been the subject of a bankruptcy proceeding.