



*Item 1 – Cover Page*

**CAPSTONE INVESTMENT ADVISORS, LLC**

**PART 2A OF FORM ADV: FIRM BROCHURE**

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March 30, 2020

This brochure ("Brochure") provides information about the qualifications and business practices of Capstone Investment Advisors, LLC ("Capstone US"). If you have any questions about the contents of this Brochure, please contact Capstone at (212) 232-1470. 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. Registration with the SEC does not imply a certain level of skill or training. Additional information about Capstone is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## *Item 2 – Material Changes*

Within this section, Capstone Investment Advisors, LLC must identify and discuss any material changes made to its Brochure since its last annual update. There have been no such changes to the Brochure since the last annual update.

Capstone recommends that you read this Brochure in its entirety. If Capstone makes any material changes to this Brochure, this Item will be revised to include a summary of such changes.



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## Item 4 – Advisory Business

Capstone Investment Advisors, LLC (“Capstone US”) is a Delaware limited liability company founded by Paul Britton on March 8, 2007. The company’s principal owner is Mr. Britton.

Capstone Investment Advisors (UK), LLP (“Capstone UK”), Capstone Investment Advisors (Netherlands), B.V. (“Capstone Netherlands” or the “Netherlands Advisor”), together with Capstone US (collectively, “Capstone”) trades globally across equities, fixed income, FX, and commodities. Capstone is a multi-strategy investment manager that focuses on relative value trading with a volatility bias. Capstone has a quantitative approach to trading and our business is model driven with a qualitative overlay.

Through its two platforms, Capstone Volatility Master (“CVM”) and Capstone Solutions (“Solutions”) (each discussed further below), Capstone seeks to capitalize on perceived inefficiencies in the pricing of volatility in target derivative markets.

Capstone’s multi-strategy volatility strategy is currently offered through CVM, a pooled investment vehicle. Through CVM, Capstone aims to generate alpha through a combination of “Risk-on” and “Risk-off” strategies. The strategy, or specific components thereof, may in the future be offered through managed accounts or single investor vehicles. Capstone UK and Capstone Netherlands each serve as a sub-advisor to CVM.

Through its Solutions platform, Capstone manages primarily customized single investor vehicles and comingled fund structures. These funds are separate from the multi-strategy volatility strategy and are generally offered through customized mandates tailored to the individual needs of investors as they relate to equity replacement strategies, tail protections strategies, and opportunistic strategies. Within Solutions, Capstone also offers a dispersion strategy through a comingled fund structure.

On July 1, 2017, Capstone acquired management control of Capstone Netherlands, a Dutch private company with limited liability that serves as a sub-advisor to CVM.

As of February 29, 2020, Capstone had approximately \$6,816,073,916 net assets under management on a discretionary basis.

In carrying out the strategies above, Capstone currently serves as the investment manager with discretionary trading authority to investment vehicles that are offered to investors on a private placement basis (each, a “Fund” or “Account” and collectively, the “Funds” or “Accounts”). Though Capstone does not currently manage a separately managed account, (“SMA”), it may enter into one or more SMA(s) in the future. The Funds include:

- Capstone Vol (US), LP, a Delaware limited partnership (“CVUS”), Capstone Vol (Offshore) Limited, an exempted company incorporated under the laws of the Cayman Islands (“CVOL”), and Capstone Volatility Master (Cayman) Limited, an exempted company incorporated under the laws of the Cayman Islands (“Capstone Volatility Master”). CVUS, CVOL, CVIL (defined below) and CVM are collectively referred to herein as “CVM”. Capstone UK and Capstone Netherlands each serves as a sub-advisor to CVM.
- CPP-2012-1 Fund Limited, an exempted company incorporated under the laws of the Cayman Islands (the “CPP 2012”).



- Capstone Income Opportunities, Ltd., an exempted company incorporated under the laws of the Cayman Islands and Capstone Income Opportunities Feeder Fund Limited, an exempted company incorporated under the laws of the Cayman Islands (together, "CIO").
- Capstone Income Opportunities II, Ltd., an exempted company incorporated under the laws of the Cayman Islands ("CIO II").
- Capstone Equity Replacement Master Fund Ltd., Capstone Equity Replacement Fund (Cayman) Ltd., each an exempted company incorporated under the laws of the Cayman Islands, and Capstone Equity Replacement Fund (US) LP, a Delaware limited partnership (collectively referred to herein as the "Equity Replacement Fund" or "CER").
- Capstone SPC Fund Ltd., a segregated portfolio company incorporated under the laws of the Cayman Islands ("CSPC") and its segregated portfolios incorporated under the laws of the Cayman Islands.
- Capstone Dispersion Master Fund Ltd., an exempted company incorporated under the laws of the Cayman Islands ("CDMF"), Capstone Dispersion Fund (Cayman) Ltd., an exempted company incorporated under the laws of the Cayman Islands ("CDOF"), and Capstone Dispersion Fund (US) LP, a Delaware limited partnership ("CDON") (collectively referred to herein as "Dispersion").
- Capstone Phi Kappa Fund Ltd., an exempted company incorporated under the laws of the Cayman Islands ("PKAP").
- CPP-2019-1 Fund Limited, an exempted company incorporated under the laws of the Cayman Islands, ("CPP19").
- Capstone EC Fund, LP, a Delaware limited partnership ("ECLP").
- Capstone Opportunistic Risk Alternatives Master Fund Ltd., an exempted company incorporated under the laws of the Cayman Islands ("CORA").
- Capstone Blue Fund Ltd., an exempted company incorporated under the laws of the Cayman Islands, ("BLUC").
- Capstone Global Funds ICAV – Capstone Dynamic Hedging Fund, an umbrella type Irish Collective asset-management vehicle authorized by the Central Bank of Ireland, ("DHFI", and together with CPP 2012, CIO, CIO II, CER, CSPC, Dispersion, PKAP, CPP 2019, ECLP, CORA, and BLUC, the "Solutions Accounts").

As used herein, the term "client" generally refers to each Account.

Capstone is registered with the SEC as an investment adviser. As defined in the relevant fund documents, Capstone has full discretion in all investment decisions made on behalf of the Funds, provided, however, Capstone may enter into arrangements with other clients that may be non-discretionary. Investment advice is provided directly to the Funds according to each Fund's particular investment objectives and not individually to each Fund's investors.

Capstone Fund Services, LLC ("CFS"), a Delaware limited liability company affiliated with Capstone, serves as the general partner of CVUS and is the manager of Capstone Volatility



Intermediate (Cayman) Limited, an exempted company incorporated under the laws of the Cayman Islands ("CVIL"), which invests substantially all of its assets in CVM.

Capstone Fund Services II, LLC ("CFS II"), a Delaware limited liability company affiliated with Capstone, serves as the general partner of CDON and the Equity Replacement Fund's US feeder.

Capstone Investment Advisors (UK), LLP ("Capstone UK") is a London-based subsidiary of Capstone that has been appointed by Capstone as a sub-adviser to CVM. Capstone UK is authorized and regulated by the UK Financial Conduct Authority.

Capstone Netherlands is an Amsterdam-based affiliate under common control that has been appointed as a sub-adviser to CVM.

*This Brochure generally includes information about Capstone and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and other exemptions of similar import under US state laws and the laws of other jurisdictions where any offering may be made. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum or similar disclosure document.*



## *Item 5- Fees and Compensation*

Compensation received by Capstone and/or an affiliate for their investment advisory services to the Funds is comprised of management fees and performance-based fees or allocations. As described below, the fees are generally deducted directly from the applicable Fund's account. Note that some Fund investors may pay more or less than other Fund investors for the same management services, depending, for example, on when a Fund investor subscribes or the total size of its investment with Capstone. In this regard, Capstone generally also waives management fees and performance compensation for Fund investors that are members, employees or affiliates of Capstone, relatives of such persons and any trust or other entity established for the benefit of such persons, and any charitable trust formed by such a person.

### **CVM**

For its investment management services to CVM, Capstone is generally entitled to receive a management fee at an annual rate (up to 2.0%) of the month-end net asset value ("NAV") of each investor's capital account balance or series of shares, as applicable. When CVM's month end net asset value is greater than or equal to \$4 billion, the management fee charged to each investor with quarterly liquidity will be reduced by 3%.

The management fee is generally paid in arrears as of the end of each calendar month. Capstone has agreed to reduce the management fee paid by certain strategic investors through side letter arrangements.

CFS is generally entitled to receive an allocation of profits ("Performance Compensation") on either a quarterly or annual basis (and upon withdrawals from a feeder fund) of up to 20% of the net appreciation in NAV of CVM, subject to the individual investor's high water mark.

### **SOLUTIONS ACCOUNTS - EQUITY REPLACEMENT FUND**

For its investment management services to CER, Capstone is generally entitled to receive a management fee at an annual rate (up to 0.75%) of the month-end NAV of each investor's capital account balance or series of shares, as applicable. The management fee is generally paid in arrears as of the end of each calendar month.

### **SOLUTIONS ACCOUNTS – DISPERSION**

For its investment management services to Dispersion, Capstone is generally entitled to receive a management fee at an annual rate (up to 1.25%) of the month-end NAV of each investor's capital account balance or series of shares, as applicable. The management fee is generally paid in arrears as of the end of each calendar month.

Capstone affiliates are generally entitled to receive Performance Compensation on an annual basis (and upon withdrawals) of up to 17.50% of the net appreciation in NAV of Dispersion, subject to the individual investor's high water mark.

### **SOLUTIONS ACCOUNTS - CORA**

Capstone does not currently manage outside investor capital in its CORA strategy. As it may do so in the future, Capstone may be entitled to receive a management fee and Performance Compensation for its investment management services to CORA. Such fees are yet to be finalized.

### **SOLUTIONS ACCOUNTS**



Generally Capstone receives a monthly management fee from each Solutions Account (other than CER) as set forth in the respective offering document of each Solutions Account. Generally, the management fee for a Solutions Account is either a flat annual minimum fee or is calculated as a percentage of one or more of the following: (i) assets under management; (ii) notional asset value replaced; or (iii) risk adjusted exposure.

The management fees charged to Solutions Accounts with respect to equity replacement strategies are generally up to 0.65% (annually) of the notional assets being replaced.

The management fees charged to Solutions Accounts with respect to tail hedging strategies are generally up to 1.50% of an Account's established program size, which generally is equal to an agreed upon multiple of the Account's annual premium budget.

The management fees for the Solutions Accounts may either be paid in advance or in arrears.

Capstone also receives Performance Compensation from one or more of the Solutions Accounts.

Capstone may agree to reduce the management fees or performance allocation paid by certain investors in any of the Funds through side letter or other arrangements.

#### **OTHER TYPES OF FEES OR EXPENSES**

In addition to management fees and Performance Compensation, the Funds also bear certain costs and expenses incurred directly or indirectly by each Fund in connection with the investments, operations and administration of Capstone and its affiliates attributable to asset management services and accounting and operational services. These expenses include such Fund's share of expenses incurred by Capstone and its affiliates for goods and services that benefit the Fund or are relevant to the Fund's investments, operation and administration, in each of the foregoing cases as determined by Capstone in its discretion.

Expenses include, without limitation, (i) clearing and executing broker fees, (ii) data feed and market data costs (and related software and hardware expenses such as Bloomberg), (iii) trading, research and risk management costs (and related software and hardware expenses, which includes the development by internal personnel of Capstone's proprietary software, such as the Capstone Trading Platform, expenses for external and internal connectivity and telecommunications, storage and server hardware and services), (iv) exchange membership expenses, (v) interest expenses, (vi) stock loan expenses, (vii) regulatory and self-regulatory fees, (viii) other transactional charges, (ix) expenses relating to cash management, (x) expenses relating to the offering of interests or shares, when applicable, including the cost of producing and distributing offering memoranda and other marketing materials and costs and expenses arising from compliance with applicable marketing or offering laws and regulations (including regulatory filings required pursuant to the Alternative Investment Fund Managers Directive of the European Union) and expenses paid to third-party vendors, (xi) expenses relating to legal, compliance services provided by third party firms and consultants, officers (including any AML Officer), and regulatory filing fees applicable in certain jurisdictions, independent director, audit, accounting, tax, insurance premiums and custodial fees and expenses, including fees and expenses related to Capstone's compliance with its reporting requirements with respect to the Funds, including, but not limited to, Form PF, transaction reporting (including MiFID II reporting) and similar filings, (xii) fees and expenses of each Fund's administrator and the costs of printing and distributing periodic and annual reports and statements, and (xiii) fees and expenses of software consultants engaged by Capstone for the benefit of the Funds. For the avoidance of doubt, Capstone rather than the





Funds will bear expenses relating to travel except for travel by directors of the Funds. The Investment Manager also does not charge the Funds for any VAT or late fees.

With respect to technology related costs, it is important to note that technology is a deeply embedded quantitative component of the each Account's trading process. The strategies implemented by Capstone entail quantitative investment processes with qualitative overlays. Specifically, the technology development team creates internal modeling tools, automated trading execution platforms, automated hedging platforms, and other similar tools related to maximizing the trading efficiency of the Accounts.

Capstone has a detailed expense allocation policy (the "Expense Allocation Policy") pursuant to which it determines whether expenses are borne by Capstone or the Accounts and how the expenses are allocated. To the extent any expense is incurred for more than one Account, Capstone generally will allocate such expenses to the Accounts in accordance with its Expense Allocation Policy. In certain circumstances, Capstone may make such allocations on another basis deemed equitable by Capstone. Certain expenses may be billed directly to a particular Account whereas other expenses may be attributable to more than one Account. To determine appropriate allocation for expenses that are shared between Capstone and the Accounts, Capstone designates its employees directly involved with trading, research and risk (front office, middle office, back office, information technology development and risk) as "Trading Employees" and its management, legal/compliance, finance, investor relations and infrastructure employees as "Non-Trading Employees".

Capstone requires a large internal infrastructure to directly support its Trading Employees. These services include, but are not limited to, physical servers in multiple locations, including Capstone's offices, data centers, and disaster recovery locations, and the data lines connecting these locations, power, and connecting cables and hard drives ("Internal Servers and Connectivity"). While not requiring the same level of support, Non-Trading Employees also benefit from the Internal Servers and Connectivity. As such, Internal Servers and Connectivity expenses are allocated first to Capstone based on an estimate of the amount such services would cost Capstone if obtained for the Non-Trading Employees on a standalone basis from service providers, with the remainder allocated to the Accounts (these expenses are then allocated between the Accounts as described below).

Other expenses, such as external connectivity and certain software expenses ("External Connectivity"), are utilized in a more equal fashion by Trading Employees and Non-Trading Employees. External Connectivity expenses are allocated on a *pro rata* basis between Capstone and the Accounts based on Non-Trading Employee and Trading Employee headcount, respectively (these expenses are then allocated between the Accounts as described below). Where an employee may serve in dual capacities as a Trading Employee and a Non-Trading Employee, the costs and expenses relating to such employees are shared equally by Capstone and the relevant Accounts.

Shared trading, research and risk expenses are typically allocated between Accounts based on a systematic headcount methodology. First, each front office employee is designated by the Account(s) such front office employee supports. When an expense is charged for goods or services that benefit or relate to more than one Account, Capstone will determine which front office employees use such service. Capstone will allocate such expenses to each Account in a formulaic manner, based on the number of front office employees linked to that Account who use that particular service divided by the total number of front office employees utilizing the service. When allocating expenses relating to a front office employee that supports more than



one Account, Capstone generally allocates such employee's "charge" evenly among such Accounts. Capstone utilizes the above headcount methodology, as opposed to allocating expenses based on the relative net asset values of the various Accounts or by capital usage, established program size, or notional assets replaced, because allocating by front office employee headcount more accurately reflects actual services used and certain Solutions Accounts may require significantly larger investments in relation to the amounts actually traded, for example, to cover initial margin requirements. Alternatively, certain expenses relating to multiple Accounts (such as the external legal expense of negotiating an umbrella trading agreement) will be charged in equal amounts to the relevant Accounts.

The determination of whether an expense should be allocated and/or borne by a particular Account (and if so, in what proportion relative to other Accounts, as applicable) shall be final and binding on all investors.

Capstone has agreed to cap expenses or abstain from allocating certain expense types charged to certain Accounts or investors in certain Accounts. Capstone, and not the other Accounts or investors, will pay for these waived expenses.

CVM requires investors to commit to a lock-up of their investment for a specified time period. Such investors may withdraw their investment prior to the expiration of such lock-up period upon payment of a withdrawal charge (between 2%-5%) assessed against such early withdrawal. Generally, the Board of Directors or CFS, as the case may be, may waive or reduce such withdrawal fee in its discretion, including to the extent it determines that the other investors will not be disadvantaged by trading expenses incurred by CVM in connection with the withdrawal or that such Fund will not otherwise be materially disadvantaged by such reduction or waiver.

Fund assets are from time to time invested in income-producing cash equivalents or other short-term instruments, including US government and agency securities, money market funds, short-term bond mutual funds, repurchase and reverse repurchase agreements, certificates of deposits, banker's acceptances and commercial paper. In some cases, a Fund may pay a third-party advisor that manages a money market fund or other short-term investment vehicle or account an advisory fee on assets invested for cash management purposes in addition to the fees paid to Capstone, provided that no such additional fee shall be paid to Capstone or its affiliates.

Fund investors should review all fees charged by Capstone, broker-dealers and other third parties to fully understand the total amount of fees to be paid by the Funds. Please also see "Item 12— Brokerage Practices" below.

## **VARIANCE OF FUND TERMS**

Capstone and/or a Fund have in the past and may from time to time in the future enter into "side letter" arrangements with certain Fund investors that may provide for terms of investment that are more favorable than the terms provided to other investors in such Funds, including, without limitation, with respect to fees, redemption rights, voting rights, and information rights. Certain institutional CVM investors seek to use their ownership positions to promote good corporate governance and other responsible investment policies. Capstone has also implemented an Environmental, Social and Governance ("ESG") Policy, which,, given the non-fundamental nature of Capstone's trading program, includes provisions to address these sensitivities by agreeing to restrict certain securities at investor request. Capstone balances these requests with the responsibility it has to all investors of CVM and restricts securities after making a determination that such action will not have a material impact on CVM's overall trading program.



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

Capstone provides investment advisory services to a variety of clients, including pooled investment vehicles, separately managed accounts and funds of one. The types of fees charged to clients may include (i) both an asset based management fee and Performance Compensation, (ii) only an asset based (or investment exposure based) management fee and/or (iii) a minimum fixed fee arrangement. Some investment professionals at Capstone provide investment advisory services to Accounts that charge Performance Compensation “side by side” with Accounts that do not have such characteristics. These investment professionals may have an incentive to favor Accounts in the first category over Accounts in the second category.

Capstone is conscious of these potential conflicts and is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address the conflicts of interest described above, as further described in Item 12.



## *Item 7 – Types of Clients*

As described in “Item 4—Advisory Business” above, Capstone generally provides investment advice to private investment vehicles, including the Funds. Investment advice is provided directly to the Funds and not individually to the Fund investors. At any time, investors in the Funds generally include institutions (e.g., pension plans, endowments, trusts, estates, charitable organizations, foundations, etc.), fund-of-funds, and high net worth individuals/family offices. Any minimum initial and additional subscription requirements are disclosed in the offering documents for the relevant Fund. Investors will be required to make certain representations when subscribing to a Fund through the execution of a subscription agreement and other documents. Interests and shares in the Funds are not registered under the Securities Act (or any other similar law), and such Funds are not registered under the Company Act. Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions.



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

### **METHODS OF ANALYSIS AND INVESTMENT STRATEGIES**

Capstone has broad flexibility in selecting the assets traded and the investment strategies implemented by the relevant Fund(s) (within the general investment objective of the relevant Fund(s) as described in the relevant Fund offering document, and subject to any applicable investment guidelines that may be applicable to any investment vehicle). The investment strategies, approaches, and techniques pursued by the Funds may evolve over time due to, among other things, the prevailing economic environment, market developments and trends, new regulatory constraints, the emergence of new or enhanced investment products, changing industry practice, and technological innovation.

Capstone manages different strategies that aim to profit from risk premia within the volatility markets, to replace asset or asset class beta using derivative instruments, such as options, futures, and swaps, to profit from the correlation risk premium within markets or to absorb excess risk that dealers need to, or want to, offlay to counterparties. Capstone may also explore strategies that aim to profit from relative value opportunities. This Item 8 is not a complete list of investment strategies that Capstone may explore or implement.

The investment strategies Capstone pursues are speculative and entail substantial risks. Investors in the Funds should be prepared to bear loss of capital. There can be no assurance that the investment objectives of any Fund will be achieved.

### **CVM**

Capstone serves as investment manager to CVM (organized in a “master-feeder” structure) that focuses on volatility arbitrage. CVM’s primary objective is to achieve long term capital appreciation that is uncorrelated or negatively correlated with global equity markets. CVM seeks to achieve its investment objective primarily through a combination of “Risk-On” and “Risk-Off” strategies, as well as other investment strategies that Capstone believes are complementary to its overall portfolio construction. CVM seeks its trading opportunities globally, primarily in US, European, and Asian markets. Currently the focus of CVM’s is multi-strategy volatility trading across the equity, fixed income, commodities, convertible bond, and foreign exchange markets. CVM may also pursue volatility arbitrage opportunities outside of such markets and its focus may move to any such other markets away from the markets listed above. Capstone also undertakes strategies that are not solely specific to volatility arbitrage, including statistical arbitrage, systematic strategies, risk arbitrage, convertible bond opportunities, fixed income relative value, including inflation, and event driven strategies. Capstone may add additional related strategies or modify existing strategies, as it sees fit.

Generally, volatility is the degree to which the daily movements of a financial asset deviate from its mean. The higher the volatility of an asset, the riskier its return stream is thought to be. Therefore, the higher the volatility, the more uncertain the finishing price of the asset, including in relation to the strike price of an option, and the more valuable the option since there is more possibility of being deep “in-the-money”. Historical or “realized” volatility is the volatility of a financial instrument based on historical returns. This phrase is used particularly to distinguish between the actual volatility of an instrument looking backward and the future volatility predicted or “implied” by the market.

The objective of a volatility arbitrage strategy is to take advantage of perceived inefficiencies in the price of volatility implied in the pricing of different but related derivatives. Capstone bases its



assessment of the expensiveness of volatility instruments on a variety of proprietary trading tools. Sometimes, CVM's volatility trading strategies seek to profit from differences between Capstone's assumption of the theoretical price of an option (mainly dependent on Capstone's implied volatility assumption), the price of the option in the marketplace, and Capstone's assessment of how events in the near future are likely to affect the relationship between those two factors.

Capstone believes that to benefit fully from these inefficiencies it is important to practice a diverse mix of strategies that can capitalize on such inefficiencies opportunistically and in a manner that each may act as a natural hedge to others in the portfolio. CVM's use of various "Risk-On" and "Risk-Off" strategies (as described below) is intended to create diversification across different market environments. The strategies are expected to have varying degrees of correlation (or negative correlation) to each other, which is intended to enable CVM to produce more consistent returns regardless of market conditions. Generally, each investment undertaken by Capstone on behalf of CVM, irrespective of the strategy pursuant to which it is made, is intended to be additive and complementary, and not solely to add diversification to the portfolio.

Capstone employs a mix of what it calls "Risk-On" strategies and "Risk-Off" strategies. By utilizing a mix of these strategies, and maintaining a flexible and liquid portfolio, Capstone seeks to take advantage of varying market environments, reducing concentration risk and providing a more non-correlated, market-neutral return.

By "Risk-On," Capstone means strategies that are employed during more benign, settled market environments, characterized by normal volumes and liquidity, lower than average volatility and correlation, more ample deal flow, and an upward-sloping term structure of volatility. "Risk-Off" means the opposite: markets characterized generally by more tentative, fearful or panicky investor sentiment, higher than average volatility and correlation, scarcer liquidity, higher cash positions, lack of deal flow, and a flat or downward sloping term structure of volatility.

The classifications of any strategy as either Risk-On or Risk-Off are reflective of Capstone's expectations over the long-term. Most CVM strategies, however, could be classified as either Risk-On or Risk-Off dependent on market conditions. Capstone does not generally seek to anticipate whether a market environment on any day or during any period is a Risk-On or Risk-Off market environment. Rather, Capstone intends to diversify its strategies and investments at all times so that it remains poised to take advantage of opportunities regardless of market environment and to use risk management to execute stop-losses on out of favor strategies. As the markets change, however, CVM's balance of Risk-On and Risk-Off will fluctuate.

## **SOLUTIONS ACCOUNTS**

Capstone serves as investment manager to the Solutions Accounts, a series of single investor funds and four comingled funds that, as a primary objective, provide "tail-risk protection", "equity replacement", "opportunistic investing", "dispersion", or "risk layoff" with respect generally to global-equity, fixed-income, commodities and volatility markets, or that provide passive strategies such as equity replacement.

### Tail-Risk Protection

The primary objective of Capstone's tail-risk protection strategy is to provide tail-risk hedging with respect to global markets. Generally, this means investing at a certain amount of "insurance premium" seeking to generate outsized returns in the event of a severe market correction or crash (a "Convexity Event"). A Convexity Event may generally be thought of as an event, including without limitation, any of the following over a relatively compressed period of time:



- A sharp equity market correction;
- A liquidity crisis or dramatic widening of risk premium;
- Extremely elevated volatility of volatility;
- A sharp steepening of volatility skew; and
- A sharp increase in volatility.

Capstone refers to these as Convexity Events because the objective is to achieve a convex, non-linear payoff upon any such event: a return profile that exhibits increasingly accelerating returns relative to the market correction. Tail-risk can be thought of as the risk of a rare and extreme move skewed to the downside that would have significant adverse impact on a traditional investment portfolio.

A second objective of the tail risk protection strategies is to limit the total annual fixed payments by a Fund on its investments to a pre-determined amount (the "Annual Premium Budget" or the "APB"). The APB is the aggregate cost of such fixed payments budgeted for a Fund to incur each year in implementing its tail protection strategies expressed as a dollar amount. Because the pricing of derivatives to which a Fund is a party can be expected to fluctuate dramatically over time, there can be no assurances that a Fund will not be required to pay more than the APB in any year. Generally, a Fund's established program size, a measure based on which management fees will be charged, will be two times the Fund's Annual Premium Budget, although investors may elect to vary this ratio.

Although an investor could invest in the tail-protection strategies as a way of expressing a bearish investment view of the broader equity markets, the strategy is intended to be part of a comprehensive strategy of hedging market risks to an investor's securities portfolio. Investors should determine the proper size of an investment in the strategy based on factors such as the size and risk characteristics of its investment portfolio (including, without limitation, measurements such as portfolio beta, security, asset class, sectoral and geographic concentrations, correlations, and expected volatility/variance in both bull and bear markets) and the APB.

The strategy cannot be expected to hedge against any particular risks to which a given portfolio is exposed. Finally, it should be noted that it is not the strategy's objective to provide a meaningful hedge in the event of a less significant market correction. Similarly, it is not the strategy's objective to have positive performance during a period of a calm, protracted market decline. Generally, investors should expect the strategy to decline in value during most market environments, just as one would expect to pay insurance premiums to protect against other risks over time. Accordingly, investors will have to increase their investment periodically to maintain the same level of exposure. In addition, an investment in the strategy should be considered a long-term investment.

While generally following the same investment strategy, Capstone provides investors the ability to tailor the management of its Account through investment and risk guidelines and other specialized terms.

#### Equity Replacement

Capstone's equity replacement strategy seeks to replace a long equity exposure profile through the use of derivative instruments using Capstone's proprietary models and derivatives expertise to identify the optimal instruments to express (i) a long beta profile that generates income and/or





generates upside leverage, depending on the attractiveness of each opportunity, and (ii) a short volatility profile to benefit from the spread between implied and realized volatility.

Capstone takes a two-pronged approach to equity replacement by blending passive (beta) and active (alpha) strategies to diversify the sources of return and target a more balanced return profile. The active component can add income during a low volatility market. Each Solutions Account that employs an equity replacement strategy (each, an "Equity Replacement Solutions Account") will use Capstone's proprietary models and derivatives expertise to identify the optimal instruments to express (i) a long beta profile that generates passive income at times and takes advantage of the dislocations in the S&P Index options market and (ii) a short volatility profile to benefit from the spread between implied and realized volatility. Capstone will generally structure, trade, and risk manage derivatives instruments to target an equivalent risk unit as an equity exposure within defined limits for each Equity Replacement Solutions Account.

*Passive Strategies.* Capstone classifies skew risk premium harvesting methodologies as a "passive strategy" and takes advantage of the higher prices of out-the-money puts compared to the prices of out-of-the-money calls. These strategies can consist of selling puts, as well as buying calls to participate in additional upside when pricing is advantageous. The selection of the specific puts and calls is based on probabilistic analysis that compares the implied distribution curve with the actual historical distribution curve to look for discrepancies. Capstone's passive strategies have a higher beta or directional component compared to Capstone's active strategies.

*Active Strategies.* Capstone classifies volatility risk premium harvesting methodologies as an "active strategy". These strategies consist of selling short-term options and neutralizing the delta of the portfolio on a daily basis, selling short-term variance, and related strategies. These strategies take advantage of the general overpricing of implied volatility compared to the subsequent realized volatility and aim to generate income.

For both active and passive strategies, the trade identification process will entail both qualitative and quantitative components. Once a particular investment has been determined, Capstone will have the discretion to execute and adjust the derivative trades necessary to effectuate the aim of such investment.

Capstone will formulate and develop general trade structures designed to produce payoffs that best serve the objective of each respective Equity Replacement Solutions Account. This involves building a universe of derivative instrument types (and combinations of those instruments) that Capstone will use to execute the investment strategy of an Account. This effort will be ongoing and the universe of investments will be dynamic, as Capstone will constantly be searching for and evaluating the optimal methods in which to replace underlying exposure in the relevant assets.

Capstone will monitor the market, leveraging its quantitative and qualitative tools along with market knowledge and market access, to determine when it is optimal to adjust the positioning held by each Equity Replacement Solutions Account. Positions will be managed and rotated to remain invested through the optimal products/strategies at any given time. Equity Replacement Solutions Accounts replace direct equity exposure, so Capstone does not increase or decrease directional exposure based on Capstone's views as to future direction of the equity markets.

Each Equity Replacement Solutions Account may choose to pay premium for certain structures when appropriate. Each Equity Replacement Solutions Account may also sell puts as part of the asset replacement process. It is not mandatory, however, for such Account to have a short put position.





Each Equity Replacement Solutions Account may suffer losses during adverse moves in the underlying assets. An investment in the equity replacement program should be considered a long-term investment.

### Opportunistic Investing

Capstone will seek to identify price dislocations within the options and volatility markets across different asset classes and will trade across a multitude of instruments in the derivatives universe and across many different regions. The objective of each Account will be to capture what Capstone perceives to be the best value within the global option and volatility markets. The profile of an Account could range from being long volatility to short volatility depending on the opportunity set and mandate provided to Capstone by an investor. Accounts may also take directional views and may use options to express these views, the sizing of which will depend on the opportunity set and the mandate provided to Capstone by an investor.

### Dispersion

Capstone's Dispersion strategy's objective is to provide absolute returns by seeking to harvest equity index correlation risk premium. Equity index correlation risk premium is the difference between expected average correlation of price returns of index constituents, implied through the option prices of the index compared to the prices of the options of the index's constituents, and the realized correlation of price returns of the index's constituents.

Capstone's Dispersion strategy attempts to achieve its primary objective through selling equity index volatility and purchasing the volatility of index constituents or sector volatility. The investment program utilizes an active correlation risk premium monetization program that utilizes both single name and index options among other strategies. Typically, such account will purchase volatility positions in the single names or sectors that comprise a particular index while selling volatility positions in the index itself, seeking to capture the spread between implied and realized correlation. Long volatility exposure will be sought in as many of the largest percentage constituents of the relevant index as is economically feasible and as the Investment Manager deems appropriate. Such account will monitor both US and global indices for potential investment.

Dispersion strategies generally seek to take advantage of supply/demand imbalances in equity index options relative to single stock options created by markets that favor equity index and sector options for hedging compared to options on single name stocks. The Dispersion Master Fund seeks to monetize the structural richness of index options compared to the options on its components without taking directional market exposure. Because volatility of a multi-asset portfolio, such as an index or sector, is a function of the correlation between the component assets, structurally rich index/sector options imply higher correlation between constituents than the level of correlation actually realized generally. Capstone seeks to isolate and monetize the correlation risk premium by selling structurally rich index/sector options or derivatives while simultaneously buying a portfolio of less rich options or derivatives on constituents of the index/sector.

### CORA

Capstone's CORA strategy generally seeks opportunities where dealers and other institutions have a need to offset risk exposure. In order to select trades, the strategy will evaluate the current entry levels for each trade, historical performance, where applicable, of the trade, the likely mark-to-market sensitivity of each trade, and the likely correlation of each trade with the existing trades in the portfolio. The strategy will size the exposure of each trade in accordance with the above factors, as well as the depth and liquidity of the trade and the tenor of the trade. These trades are



expected to be longer-dated trades. Tenors will generally range from between 1 to 3 years, but may be less than 1 year and exceed 5 years in certain circumstances. The strategy may frequently trade short dated instruments to hedge and to monetize existing risk.

Positions within CORA are rolled or exited when deemed to be advantageous, in consideration of trading costs, due to the existence of a more attractive trade or due to re-examination of the position from a return and risk management perspective. However, unless conditions materially shift, these trades are generally intended to be held to maturity if possible. This is partly because in some circumstances, due to the longer tenor of these trades and illiquidity as compared to listed exchange traded options, the strategy may face materially higher bid/offer costs to exit positions before expiry. If positions are exited prior to maturity (for example, in order to meet investor withdrawal requests), the strategy may face increased trading costs and/or longer exit timing. As such, the fair value of the strategy's positions may at any time, including for purposes of calculating the official monthly net asset value, be significantly higher (or lower) than the actual value that would be realized if the strategy should exit such positions if required to do so prior to maturity. Additionally, the bespoke nature of some of the trades may require reliance on specific counterparties for unwinding and valuation of the trades, which can further affect the mark-to-market and valuation of the trade during its life, as well as the costs of exiting a trade before expiry or the time required for such an unwind.

Weightings across the trades within the strategy will be based on quantitative analysis with a qualitative overlay that includes consideration of the expected correlation between trades. Weightings may be dynamic over time. Factors accounted for in selection and weighting will include (but are not limited to) expected carry, tenor of the trade, expected downside, mark-to-market sensitivity, size and liquidity of the opportunity, correlation to other trades, counterparty exposure, and margin requirements. As new capital is allocated to the strategy or as existing trades expire, new capital will be deployed into what the portfolio manager of the strategy believes to be the most attractive opportunities, in accordance with the above considerations. The strategy may choose to maintain excess cash until such time as entry levels for targeted trades are more advantageous.

Allocation to underliers will be opportunistic and at the discretion of the portfolio manager of the strategy based upon quantitative screening, market intelligence, and pre-existing exposure. Positions may be managed and rotated to remain invested through what the portfolio manager of the strategy believes to be the optimal set of assets. CORA will look to redeploy expiring or exited positions into opportunities it deems attractive or deploy new capital.

## **MATERIAL RISKS OF CAPSTONE'S STRATEGIES**

The strategies employed by Capstone involve risk of loss that clients and Fund investors should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Funds' investments. This summary does not attempt to describe all of the risks associated with an investment in a Fund. Although no summary can fully describe all of the risks associated with such an investment, the Confidential Information Memorandum or other offering document for each Fund contains a more complete description of the risks associated with an investment in that Fund.

### *MATERIAL RISKS RELATING TO CAPSTONE'S INVESTMENT STRATEGIES*

**RISK OF INADEQUATE QUANTITATIVE MODELS.** Capstone's trading will be highly model driven and materially subject to possible flaws in the models (both proprietary models developed by Capstone, and those supplied by third parties). Models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may not be reliable



if unusual events specific to particular issuers, or major events external to the operations of markets cause extreme market moves that are inconsistent with the historic correlation and volatility structure of the market. Models also may have hidden biases or exposure to broad structural or sentiment shifts. Furthermore, the effectiveness of such models tends to deteriorate over time as more traders seek to exploit the same market inefficiencies through the use of similar models.

MARK TO MARKET RISK. Capstone's strategies are exposed to the risk that positions will be marked against the strategy and require additional margin to be posted, including more than is available in the unencumbered cash of the strategy. This mark-to-market could be caused by, among other possibilities, a change in implied volatility.

RISK RELATED TO INVESTING IN DERIVATIVES. The prices of derivative instruments, including financial and commodity futures and options, are highly volatile. Because of the low margin deposits normally required in derivatives trading, an extremely high degree of leverage is typical of a derivatives trading account. Payments made pursuant to swap agreements may also be highly volatile. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested. In addition, the pertinent Fund's assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses or counterparties.

Over-the-counter ("OTC") swap, forward and option contracts are not traded on exchanges and are not standardized. These markets can experience periods of illiquidity, sometimes of significant duration. Market illiquidity or disruption could result in major losses to a Fund. Such OTC derivative transactions also subject a Fund to counterparty risk.

A Fund may make investments in credit default swaps, total rate of return swaps or other credit derivatives. Credit derivatives are a relatively recent development in the financial markets and entail certain legal, tax, and market uncertainties. There is currently little or no case law or litigation characterizing these instruments, interpreting their provisions or characterizing their tax treatment. In addition, additional regulations and laws may apply to these instruments that have not yet been applied.

RISKS RELATED TO OPTIONS TRADING. Trading volatility is a very complex strategy and requires significant quantitative and mathematical resources and capabilities. The pricing of options involves a wide variety of factors—including the variability of interest rates, the time to expiration, the price of the underlying, the volatility of the underlying and general market sentiment. There can be no assurance that Capstone will correctly value its options positions or that the market will, in fact, revert to theoretical values; consequently, substantial losses could be incurred by a Fund.

- *Risks Related to the Pricing of Volatility of Options.* Options are often quoted in terms of implied volatility. If Capstone incorrectly assesses market volatility, Capstone will misprice the options which it trades, which may result in significant losses.
- *Risks Related to the Time Value of Options.* Longer-dated options tend to be far less liquid than near-term options. Certain trades which Capstone may execute will value longer-dated options, which carry material incremental liquidity risk.
- *"Pin Risk".* Concentrated option positions become more risky at expiration if the underlying is trading at or near the strike price. This results in a difficult portfolio management environment. Similarly, if an option closes right at strike, a Fund could lose the entire premium on the option and possibly additional money on its hedge.



- *Interest Rate Risk.* Prevailing interest rates are a principal component of options pricing. Consequently, unexpected changes in interest rates can result in CVM and/or the Solutions Accounts incurring significant losses.

RISK OF MARKET STAGNATION. To the extent that the strategies implemented by CVM depend on changes in volatility, in periods of trendless, stagnant markets and/or deflation, these strategies have materially diminished prospects for profitability.

RISKS OF SHORT SELLING. Capstone's Accounts will sell securities short. A short sale is effected by selling a security which the Funds does not own. In order to make delivery to the buyer of a security sold short, the Funds must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Funds must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Funds. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Funds. Furthermore, the Funds may prematurely be forced to close out a short position if a counterparty from which the Funds borrowed securities demands their return, resulting in a loss on what might otherwise have ultimately been a profitable position.

PORTFOLIO TURNOVER RATE MAY RESULT IN ADDITIONAL COSTS. The turnover rate of CVM's and the Solutions Accounts investment portfolios are expected to be significant, involving substantial brokerage commissions, fees, and other transaction costs. CVM and the Solutions Accounts will bear such costs.

TRANSACTION VOLUME AND MARKET LIQUIDITY MAY IMPAIR PERFORMANCE. A decline in cash flows into the capital markets or a slowdown in investment activity in the capital markets, as well as other factors, may cause a decline in transaction volumes in the option markets. CVM's and the Solutions Accounts' investment activities may be affected materially by transaction volumes in the option markets. Higher market volume typically provides greater opportunities to engage in revenue-generating transactions and narrower bid/offer spreads. Therefore, a decline in transaction volumes may result in a Fund incurring significant losses.

GLOBAL MARKET RISKS AND EMERGING MARKET RISKS. CVM and the Tail Protection Fund will invest primarily in US markets, European and Asian markets, but may invest on a more global basis in both developed and, from time to time, emerging markets. In doing so, a Fund is subject to currency exchange-rate risk; the possible imposition of withholding, income or excise taxes; the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and economic and political risks, including expropriation, currency exchange control and potential restrictions on foreign investment and repatriation of capital. Emerging markets present unusual risks, including government instability; political risk; lack of or less than transparent priority; the imposition of currency controls; expropriation risk; and the application of various laws and regulations. Volatility-related strategies in emerging markets are subject to unusual risks due to the uncertainty of such countries' legal regimes and procedures as well as the risk of other market participants having better access to relevant market information.



HEDGING RISKS. Capstone's investments may not be adequately hedged. Although certain investments are intended, in part, to hedge other holdings, there is no guarantee that they will do so to the degree predicted by theory or otherwise to a satisfactory extent. In calculating the overall exposure of the investments, Capstone must make certain determinations, including its prediction of the future volatility of the investments. If Capstone were unable to forecast accurately any one or more of the components used to determine how best to hedge its investments, Capstone could, in practice, find itself over- or under-hedged, which could materially and adversely affect the performance of the investments.

CYBERSECURITY BREACHES. Capstone and the Funds, like all businesses dependent on information technology systems, are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from "hacking" by other computer users, other unauthorized access and the resulting damage and disruption of hardware and software systems, loss or corruption of data, as well as misappropriation of confidential information. If a cybersecurity breach occurs, the Funds may incur substantial costs (on behalf of the Funds or Capstone), including those associated with: forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, investment losses from sabotaged trading systems, identity theft; unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information, and reputational damage. Breaches in cybersecurity during the Funds' trading could also result in investor information being hacked by foreign nations or non-state actors, which could result in losses to the Funds. Any such breach could expose Capstone and the Funds to civil liability, as well as regulatory inquiry and/or action. Any such breach could also cause substantial withdrawals from the Funds. In addition, investors could be exposed to further losses as a result of unauthorized use of their personal information.

GLOBAL DISASTERS AND EPIDEMICS. Capstone's investment advisory activities could be adversely affected by events outside of its control, such as natural disasters or health epidemics. Beginning in late 2019, the media reported a public health epidemic originating in China, prompting precautionary government-imposed closures of certain travel and business. It is unknown whether and how global supply chains may be affected if such an epidemic persists for an extended period of time. In relation to this and other future global disasters or epidemics, Capstone and the Funds may incur expenses, delays, or interruption of critical business functions relating to such events outside of our control, which could have a material adverse impact on our investment advisory business and in turn, adversely affect the performance of Capstone's Funds.

LEVERAGE RISK. CVM employs leverage in the execution of its investment strategies, both through its borrowings with its prime brokers and through the effective leverage embedded in its investments in derivative instruments, such as options, futures and swaps. Transactions in options, futures and swaps are inherently and at times substantially leveraged. This is because a relatively small dollar amount enables CVM to achieve a considerably larger exposure to the instrument underlying the options and futures. While a Fund may generally hold a substantial amount of cash, thereby reducing the effective leverage of such Fund, it is not required to hold any specific amount of cash, and the effective leverage may be substantial. The use of leverage increases any losses incurred on investments in direct proportion to the degree of leverage employed.

CVM trades based upon its assumptions regarding the availability of leverage under current margin rules and arrangements. If controlling authorities increase margin requirements or CVM is no longer entitled to exemptions from the general margin rules, CVM may not be able to pursue its objectives and may be required to liquidate positions at inopportune times or at unfavorable prices.



GAP RISK. The Equity Replacement Solutions Accounts' investment strategy and other strategies are exposed to gap risk. Gap risk is the risk that the underlying investment's price will instantaneously, or over a very short amount of time, move significantly. For example, there is a risk that the relevant benchmark index could open its trading on a given day 10% lower. In addition to each Equity Replacement Solutions Account being exposed to the risk of large market moves, the Equity Replacement Solutions Accounts are also exposed to the risk of the market making those moves in such a short amount of time that Capstone is unable to adjust the portfolio positioning. For example, there is a risk from the delta-hedged strangles positions if Capstone is unable to execute its delta hedges due to market price gaps.

RISKS RELATED TO INVESTING IN HIGH-YIELD DEBT SECURITIES AND LOWER RATED LOANS. High-yield debt securities will have greater credit and liquidity risk than investment grade obligations. Risks of high-yield debt securities may include: (i) limited liquidity and secondary market support, (ii) substantial marketplace volatility, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates, (v) the possibility that earnings of the high-yield debt security issuer may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such high-yield debt securities during periods of rising interest rates and/or economic downturn.

DISPERSION STRATEGY RISK OF MISMATCHED PERFORMANCE OF RELATED POSITIONS. Pursuant to a "dispersion" strategy, CVM may buy and sell ETFs, futures and/or index and ETF options to hedge its other holdings or positions. Certain CVM positions may underperform the other positions to which they relate, which could result in losses.

CERTAIN OF THE FUND'S ASSETS WILL BE ILLIQUID. CVM may invest and trade in illiquid and restricted, as well as thinly-traded, instruments. A portion of CVM's assets may be classified as Level III assets. CVM may only be able to liquidate these positions, if at all, at disadvantageous prices and hence may be required to hold such instruments despite adverse price movements.

#### *MATERIAL RISKS RELATING TO THE INVESTMENT STRATEGIES OF THE TAIL PROTECTION FUND*

PREMIUM SPENT. The primary objective of the tail protection fund is to provide "tail-risk protection" or "tail-risk hedging" during a convexity event. It is not the tail protection fund's objective to have positive performance during a period of a calm, protracted market decline. Generally, investors should expect the tail protection fund to decline in value during most market environments, just as one would expect to pay insurance premiums to protect against other risks over time. Accordingly, in order to maintain the same level of exposure, investors will have to increase their investment periodically. In addition, an investment in the Tail Protection Fund should be considered a long-term investment.

#### *MATERIAL RISKS RELATING TO THE INVESTMENT STRATEGIES OF THE EQUITY REPLACEMENT SOLUTIONS ACCOUNTS*

RELIANCE ON INTERNAL MODELS. Capstone relies on internal models to estimate the effect of market movements, including market shocks. The models, employing various assumptions, estimate the effect on the portfolio due to estimates of the changes to the volatility surface. There is the risk that these models do not accurately estimate the effect on the volatility surface during market events, or that the change in the volatility surface has a different impact than predicted on the portfolio, and that the effect on the profitability of the portfolio is different than simulated. Information generated using internal models is inherently limited.





## *Item 9 – Disciplinary Information*

On May 24, 2016, the Finnish Financial Supervisory Authority (the “FIN-FSA”) levied an administrative fine on Capstone Volatility Master Limited Fund (“CVM”) because the FIN-FSA determined that CVM did not timely submit the FIN-FSA disclosure to comply with the disclosure requirement under Article 6(1) of Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling (“SSR”). CVM sent a public notification of a net short position of 0.50% in the issued share capital of Nokia OYJ on October 10, 2014. Further short position movements led to disclosures cumulating to a 1.19% disclosure on November 12, 2015. Thereafter, on November 12, 2015 CVM closed/covered the entire short position of Nokia OYJ. During this period CVM made 10 timely notifications due to fluctuations in the Nokia short position. On November 13, 2015, due to administrative error, CVM failed to report that it had closed out of the Nokia position the previous day. On January 12, 2016, Capstone identified the error and self-reported the corrected position to the FIN-FSA. The FIN-FSA sent a letter to CVM on March 23, 2016 informing them of the matter and provided an opportunity to respond. However, in its subsequent decision the FIN-FSA wrote that the time specified in the SSR for submission of a notification to the competent authority is unconditional, and failure to comply with it cannot be corrected regardless of the mitigating factors highlighted by Capstone in its response. The FIN-FSA imposed a fine of €20,000.

On October 16, 2019, (“Hearing Date”), Capstone settled with the Chicago Board of Trade (“CBOT”) for a matter relating to an Exchange for Related Position (“EFRP”) package traded on July 9, 2018. On the Hearing Date, the CBOT’s Trade Business Conduct Committee found that the EFRP in question lacked both a reasonable degree of price correlation and opposing market bias, and thus deemed the trade to have been executed in violation of CBOT Rule 538.C. In a mutually agreed upon settlement of this matter, the CBOT imposed a fine in the amount of \$15,000 USD, and Capstone neither admitted nor denied the rule violation on which the penalty is based.

To the best of Capstone’s knowledge, there are no additional legal or disciplinary events that are material to an advisory client or prospective advisory client’s evaluation of Capstone’s advisory business or the integrity of Capstone’s management.

As part of Capstone’s routine compliance monitoring, all employees are asked to certify upon hire, and thereafter on an annual basis, whether they have been the subject of any disciplinary actions.



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

As noted above, Capstone Fund Services, LLC (previously defined as “CFS”), an affiliate of Capstone, serves as the general partner of CVUS and as the manager of the CVIL and as such is entitled to receive performance allocations from CVUS and CVIL. Capstone Fund Services II, LLC (previously defined as “CFS II”), an affiliate of Capstone, serves as the general partner of the Equity Replacement Fund’s domestic feeder, CDOM, CFCP, and CDOM.

Capstone Investment Advisors (UK), LLP (previously defined as “Capstone UK”) is a London-based subsidiary of Capstone that has been appointed by Capstone US as a sub-adviser to CVM. Capstone UK is a MiFID firm, authorized and regulated by the UK Financial Conduct Authority. Capstone UK provides discretionary investment advisory services to CVM. Capstone UK is compensated by Capstone for these services, and Fund investors are not subject to additional fees as a result of these services.

Capstone Netherlands is an Amsterdam-based affiliate under common control that has been appointed by Capstone US as a sub-adviser to CVM.

Capstone US and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

Capstone US is registered as a Commodity Pool Operator, (“CPO”), with the CFTC. Capstone US is also registered as a member of the NFA. While registered as such, Capstone US operates CVM and the Solutions Accounts pursuant to an exemption from certain obligations of a registered CPO under CFTC Rule 4.7. Capstone UK is also registered as a CPO with the CFTC and is registered as a member of the NFA. In its co-CPO relationship with Capstone US, Capstone UK relies on an exemption under CFTC Rule 4.7 in its operation of CVM.

Private equity funds managed by NB Dyal Advisors LLC (“Dyal”) hold a passive, non-voting, minority equity interest in each of Capstone, CFS, and CFS II. Dyal is ultimately controlled by Neuberger Berman. Dyal has no control over the investment process or day to day operations of Capstone, CFS, CFS II, or the Funds but has certain consent rights relating to actions by Capstone, CFS, and CFS II in respect of themselves.

Except as described in the Brochure, neither Capstone nor any of its management persons has a relationship or an arrangement that is material to its advisory business or to its advisory clients with any related person that is a pooled investment vehicle, investment adviser, commodity pool operator, or commodity trading adviser. In addition, Capstone does not recommend or select other investments advisers for its clients.





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

### **CODE OF ETHICS AND PERSONAL TRADING**

In seeking to meet its fiduciary obligations, Capstone has adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; employees must comply with all applicable laws and regulations, including, without limitation, federal securities laws; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Funds, including the Funds’ investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times.

The Code is applied to employees of Capstone US, Capstone UK, and Capstone Netherlands. The Code places restrictions on personal trading by Capstone employees, including that they disclose their personal securities holdings and transactions to Capstone on a periodic basis. Employees are not permitted to buy and sell publicly traded securities or purchase shares of mutual funds that are advised or sub advised by Capstone. Employees are allowed to trade in treasury securities, municipal bonds, open-ended mutual funds and, with pre-clearance, broad-based Exchange Traded Funds, which are generally subject to a 30 day holding period. Employees may make investments in other private investment funds subject to preclearance. In addition, employees are permitted to hold accounts over which a third-party manager exercises exclusive discretionary authority.

The Code also includes policies and procedures that are designed to prevent the misuse of material, non-public information (“Insider Trading Policies”). Capstone’s Insider Trading Policies prohibit Capstone and its employees from trading for the Funds or themselves, or recommending trading, in securities of a company while in possession of material, non-public information about the company, and from disclosing such information to unauthorized persons.

In addition, the Code contains restrictions on the giving and receiving of gifts and entertainment, prohibitions on serving on the boards of outside companies without prior approval, and policies and procedures concerning political contributions in connection with Rule 206(4)-5 under the Advisers Act.

Employees of Capstone are required to certify to their understanding and compliance with the Code, initially upon commencement of employment, annually, and upon any change to the Code.

Capstone will provide a copy of the Code to any current or prospective client or Fund investor upon request.

### **PRINCIPAL TRANSACTIONS AND CROSS TRADES**

Capstone may use an unaffiliated broker-dealer or custodian or prime broker to trade securities and/or cash between client accounts when such a transaction is advantageous for each participant. In such cases, securities will generally be traded at the current market price, the midpoint between the current national best bid and offer, or some other fair price as reasonably



determined by Capstone. In the case of periodic rebalancing transactions, which would generally take place on the first business day of a month, cross transactions may be effected at the closing price on the day prior to the rebalancing. Any transaction costs will be divided equally between the accounts participating in such cross trades. All cross trades must be approved in writing by the Chief Compliance Officer (the "CCO") or her designee. In determining whether to allow a cross trade, Capstone will consider the following factors:

- Cross trade requests should generally not occur between CVM and any Solutions account. The trading and positions of these accounts should be separate from one another, and therefore no trading should occur between them.
- Capstone will generally not elect to transfer securities through a cross trade if similar securities could be purchased in the open market at a de minimis premium or cost for both of the accounts attempting to engage in a cross trade. Cost for these purposes includes broker fees, exchange fees, and other fees associated with trading a listed security in the open market.
- Capstone manages a number of accounts as a QPAM fiduciary under ERISA. Generally speaking, ERISA Section 404(a)(1)(A)'s "exclusive purpose" requirement and the Section 406(b)(2) proscription against a fiduciary's acting in a transaction on behalf of a person from whom the fiduciary may receive a benefit prohibit cross trades between an ERISA account and any of Capstone's other clients. While there are very limited statutory exemptions, the criteria often cause the exemptions to be unavailable or not worth pursuing.

To the extent that cross transactions may be viewed as principal transactions due to the ownership interest in a Fund by Capstone and its personnel, Capstone will either not effect such transactions or comply with the requirements of Section 206(3) of the Advisers Act, including disclosure in writing before completion of the transaction of the capacity in which Capstone is acting to each participating client, or independent representative(s) appointed by such client, and obtaining each participating client's consent to the transaction prior to the completion of such transaction.

Capstone is prohibited from engaging in principal trades for certain Accounts.



## Item 12 – Brokerage Practices

### GENERAL

Capstone has complete authority over the selection of the brokerage firms used to execute and clear portfolio transactions on behalf of the Funds and custody assets of the Funds.

### BEST EXECUTION

Capstone's policy is to place portfolio transactions with broker-dealers who will execute transactions at the most advantageous terms reasonably available under the circumstances. Capstone will seek to obtain best execution taking into account all factors they deem relevant, including the quality of execution, the brokerage firm's financial responsibility and reputation, range and quality of the services made available to the Funds and Accounts, and the brokerage firm's professional services, including clearance procedures and ability to provide research information for consideration, analysis and evaluation by Capstone. If Capstone determines in good faith that the amount of transaction costs charged by a brokerage firm is reasonable in relation to the value of the products or services such brokerage firm provides, Capstone may incur transaction costs in an amount greater than the lowest cost available.

Capstone has no directed brokerage arrangements. If it were to engage in such arrangements, there is no assurance that best execution could be achieved.

Employees of Capstone may receive gifts and gratuities from broker-dealers or persons with whom Capstone does business. This may include meals, tickets to sporting events and other entertainment, transportation, attendance at seminars or other educational training or informational events, logo items and other items of small value, including gifts associated with life events such as birthdays or weddings. Employees may not accept gifts from any party that exceeds, in the aggregate, \$250 in value in any calendar year without the consent of the CCO. Capstone does not consider gifts and entertainment received when selecting broker-dealers. Any gifts and/or entertainment received must be reported to the CCO.

Capstone, through a subsidiary, is the organizer and a sponsor of a volatility industry conference, the Global Volatility Summit. The Global Volatility Summit is held annually both in New York City and in Tokyo. Capstone employees may solicit sponsorships on behalf of Summit to help facilitate the organization and offset the costs associated with the Global Volatility Summit events. Such sponsors include, but are not limited to, various broker-dealers, trade execution platforms, and other vendors used by Capstone to help conduct its investment advisory business. Generally, Capstone's investor relations employees manage the sponsorship solicitation process in its entirety, with no involvement from the firm's investment professionals. Additionally, Capstone's best execution policies, procedures, and reviews are intended to mitigate potential conflicts of interest arising from the Global Volatility Summit with respect to counterparty sponsorship.

### CONTEMPORANEOUS TRADING

*Allocations of Trades and Investment Opportunities.* Investment opportunities will generally be allocated among those Accounts for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) whether the risk-return profile of the proposed investment is consistent with an Account's objectives; (ii) the potential for the proposed investment to create an imbalance in an Account's portfolio; (iii) the liquidity requirements of an Account; (iv) potentially adverse tax consequences; (v) regulatory



restrictions that would or could limit an Account's ability to participate in a proposed investment; and (vi) the need to re-size risk in an Account's portfolio.

Capstone will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any Account solely because Capstone purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to another Account if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable, desirable, or in the best interest for such Account.

In particular, when an Account is ramping up its investment or trading strategies, it may receive larger allocations of certain securities than other Accounts in order to obtain its desired risk and portfolio size. Conversely, certain Accounts may receive reduced or no allocations of certain securities when other Accounts ramp up their investment and trading strategies. Each Solutions Account and CVM may have investment objectives, programs, strategies, and positions that are similar to or may conflict with each other, or may compete with or have interests adverse to one another. Such conflicts could affect the prices and availability of securities in which each Fund invests. Even if an Account has investment objectives, programs or strategies that are similar to those of another Account, Capstone may give advice or take action with respect to the investments held by, and transactions of, certain Accounts that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, other Accounts for a variety of reasons, including, without limitation, differences between the investment strategy, target exposure levels, risk considerations, financing terms, regulatory treatment, and tax treatment of the funds. As a result, each Account may have substantially different portfolios and investment returns.

Generally, Capstone does not have formal allocations between investment teams that do not trade overlapping products. As such, the Solutions Accounts, which are managed by a separate portfolio team in Capstone US, are traded independently of CVM. The CVM portfolio managers based in Capstone US, Capstone Netherlands and Capstone UK also do not support any other products and trade independently of the Solutions Accounts. As of July 1, 2018, CVM made a material investment in Capstone Dispersion Master Fund Ltd, resulting in majority ownership. CVM remains a majority owner of Capstone Dispersion Master Fund Ltd as of February 29, 2020. Similarly, on January 1, 2020, CVM made a material investment in the Capstone Opportunistic Risk Alternatives Master Fund Ltd, and, as of February 29, 2020, remains the majority owner.

Within the Solutions platform, when any two or more of the Solutions Accounts intend to trade into or out of the same positions on a particular day, it is the policy of Capstone to allocate such trades to the Solutions Accounts on a fair and equitable basis, to the extent practicable and in accordance with each Solutions Account's applicable investment strategies and guidelines, over a period of time.

*Randomization.* If Capstone determines that the purchase or sale of a security on an electronic platform is appropriate with regard to multiple Solutions Accounts, Capstone will generally send orders to electronic trading platforms for each relevant Solutions Account in a randomized order generated by Capstone. As such, one Solutions Account may receive less favorable pricing than another Solutions Account with respect to a particular trade. However, over time, the randomization process should mitigate the ability of any one Solutions Account to consistently receive such benefit. As a result, certain trades in the same security for one Solutions Account (including an Account in which Capstone and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another Account, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order.



or trade. However, over time, Capstone believes that the randomization process equalizes the advantage seen by any one Account for one particular trade.

*Aggregation.* If Capstone determines that the purchase or sale of a security through an executing broker over the phone or chat (generally for complex options) or OTC is appropriate with regard to more than one Solutions Account, Capstone may but is not obligated to purchase or sell such a security on behalf of the relevant Accounts with an aggregated order for the purpose of reducing transaction costs, to the extent permitted by applicable law. Capstone expects to receive one price (or one average price of multiple fills) on such orders that can be allocated to each relevant Solutions Account based upon pre-determined trade sizes for each Solutions Account. In the event of a partial fill, allocations will be made on a *pro rata* basis from the original allocation, but may be modified on a basis that Capstone deems to be appropriate, including, for example, to avoid odd lots or de minimis allocations. Some opportunities for reduced transaction costs and economies of scale may not be achieved.

### **SOFT DOLLAR BENEFITS**

Capstone currently has no material soft dollar arrangements. However, Capstone uses full-service broker-dealers that provide research or other products or services to most or all of their customers. As a result, Capstone may on occasion receive and use such services provided by these broker-dealers.

Such services may include research and other brokerage services. In such instances, Capstone may have an incentive to select broker-dealers based on its interest in receiving such research rather than based on the Funds' interest in receiving the most favorable execution.

Such full services brokers-dealers may also provide other products, including consulting services, risk analytics, and capital introductory services to Capstone. In these situations Capstone receives a benefit because it does not have to pay for such services. Additionally, the capital introductory services provided by full service brokers-dealers provide Capstone with an opportunity to solicit new investors and/or obtain client referrals. Capstone does not separately compensate such broker-dealers for the provision of such services and does not believe that they "pay up" to receive such services. However, the receipt of such services may pose a conflict of interest for Capstone, as Capstone may have incentives to select broker-dealers based on their interest in receiving such services rather than based on the Funds' interests in receiving the most favorable execution.

Although Capstone does not currently have any material soft dollar arrangements, the investment management agreements entered into between the Funds' and Capstone (the "Investment Management Agreements") provide that Capstone may select the prime brokers for the Funds and specifically authorizes Capstone to direct brokerage to firms which provide research services and brokerage services in exchange for receiving commission credits. Products and services acquired this way are generally referred to as services acquired with "soft dollars" (collectively "Soft Dollar Services"). It is Capstone's policy to enter into arrangements for Soft Dollar Services only to the extent that they are within the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934. Accordingly, Capstone may in the future cause the Funds to pay a broker-dealer that provides brokerage services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another broker-dealer would have charged, if Capstone determines in good faith that such commission or transaction cost is reasonable in relation to the value of brokerage services, research products, or other services received.



## **MiFID II**

Capstone UK is a MiFID delegated investment manager authorized and regulated by the UK Financial Conduct Authority. Capstone UK utilizes research products in a range of forms, which are deployed in the investment decision making process. Article 24 of the revised Markets in Financial Instruments Directive or MiFID II (the "Directive") bans investment firms that provide portfolio management services and/or investment advice from receiving fees or any monetary or non-monetary benefits from third parties in relation to the provision of services by third parties to clients. Such benefits are considered as "inducements" under the Directive and would therefore create a potential conflict of interest between Capstone UK and its clients. Investment research is deemed an inducement under the Directive, except to the extent it is subject to a separate research charge. Therefore, Capstone UK has an obligation to reject any research or other materials received but not paid for, unless deemed a minor non-monetary benefit permissible under the Directive. Capstone UK and Capstone US have set up a policy and process to manage unbundled payments for execution, advisory services, investment research, and any other service, which is deemed to be a monetary benefit to Capstone.

## **TRADING ERRORS**

From time to time, during the course of trading for the Funds, trading errors will occur. Capstone has adopted a trading error policy that applies to the Funds. Pursuant to this policy, as a general matter and to the extent not inconsistent with Capstone's or any third party's contractual arrangements with the relevant Fund or applicable law, including ERISA, trading errors will be absorbed (in the case of a trading loss) or retained (in the case of a trading gain) by a Fund on whose behalf the trade was placed. While Capstone and its counterparties have controls in place to prevent trade errors, there is always the possibility that such errors may occur. Trading errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system resulting in the wrong amount of securities purchased or sold or the wrong security purchased or sold. Given the volume of transactions executed by Capstone on behalf of the Funds, investors (other than funds of one subject to ERISA) should assume that trading errors (and similar errors) may occur and that the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of Capstone's personnel. Investors may contact Capstone with any questions related to Capstone's trade error policies.



## *Item 13 – Review of Accounts*

Funds are generally reviewed daily by, or under the supervision of, Capstone's Chief Risk Officer in conjunction with his designated responsibilities.

Capstone considers the careful management of risk to be a critical element of a successful trading program and has developed a range of monitoring and analytical techniques intended to make risk management more rational and effective. For instance, Capstone monitors markets on an ongoing basis. When volatility and trading losses reach predetermined levels, positions are generally reviewed to determine whether to scale back or eliminate such positions. Each Fund's portfolio of positions and investments is monitored to maintain the targeted levels of risk and volatility. Capstone's Risk Management team seeks to enhance risk management disciplines, adding value-at-risk computations, stress tests, and additional analyses to attempt to complement the risk control methods already implemented.

Fund investors receive monthly letters from Capstone describing the performance of the relevant Fund, along with a commentary by Capstone. Fund investors also receive monthly statements detailing their account information, including, but not limited to, the account's beginning and ending equity and the account's performance for that period. Performance information is also available through a secure link on Capstone's website. In addition, Capstone issues to the Fund investors annual audited financial statements concerning the relevant Fund (and, for US investors, tax reports) within 120 days of the end of the Fund's fiscal year. Single investor funds and clients with separately managed accounts receive reports and other information in accordance with their managed account agreements or Investment Management Agreements.



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

Capstone does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither Capstone nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for investor referrals. Capstone may in the future enter into arrangements with third party placement agents, distributors or others to solicit investors in the Funds and such arrangements will generally provide for the compensation of such persons for their services at Capstone's expense, subject to the Cash Solicitation Rule under the Advisers Act, when applicable.





## *Item 15 – Custody*

The assets of the Funds will be held in cash or securities at the banks, brokerage firms, clearing firms, and other qualified custodians selected by Capstone. No cash or securities of the Funds will be held in the actual custody of Capstone or its affiliates. However, Capstone is deemed to have custody of certain assets contained in the Funds' portfolios since an affiliate of Capstone serves as the general partner of any US-domiciled Fund and Capstone has the ability to direct money to and from a Fund as a representative of such Fund and to deduct Capstone's fees directly from the Funds' accounts. Such arrangements may cause Capstone to have custody for purposes of the Custody Rule under the Advisers Act. In such instances, investors do not receive account statements from the custodian; rather, the Funds are subject to an annual audit and the audited financial statements are distributed to each Fund investor within 120 days of the end of the Fund's fiscal year.



## *Item 16 – Investment Discretion*

Capstone provides discretionary investment advisory services to the Funds and Accounts. Capstone makes investment decisions, without consultation with the Funds or the Funds' investors, regarding which securities are bought and sold for the Funds, the total amount of the securities to be bought and sold, the broker-dealers (if any) with which orders are placed for execution and (as applicable) the commission rates at which securities transactions are effected. Such discretionary authority is granted to Capstone in the applicable limited partnership agreement or Investment Management Agreement (or sub-advisory agreement, to the extent applicable). Certain separately managed accounts, single investor vehicles or Funds managed by Capstone generally will provide investors with the ability to tailor the management of such accounts through investment and risk guidelines and may provide other specialized terms.



## *Item 17 – Voting Client Securities*

### **PROXY VOTING**

In compliance with Advisers Act Rule 206(4)-6, Capstone has adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with Capstone's proxy voting policies and procedures, which are designed to take into account the best interests of the Funds, as determined by Capstone in its discretion.

Due to the nature of Capstone's advisory services, a majority of the strategies employed largely use quantitative valuation models and a largely systematic approach to trading rather than a long-term investment approach. Further, Capstone is not an activist investor, and such strategies are generally not correlated with a given industry, sector, or broader market, and thus generally not dependent upon the outcome of proxy contests. Capstone has engaged Institutional Shareholder Services ("ISS") to facilitate the firm's votes on behalf of its clients. Unless Capstone deems an alternative vote selection to be more advantageous to its Funds, ISS has been authorized and instructed to vote all of Capstone's eligible proxy ballots in accordance with a recommendation resulting from the application of the ISS US Sustainability Voting Guidelines. Such guidelines represent an approach to corporate governance and proxy voting that aligns with the perspectives of mainstream investors that wish to incorporate ESG considerations in their investment decision-making processes to a greater extent. The Sustainability Voting Guidelines focus on long-term economic value preservation/enhancement through promotion of corporate governance best practices that mitigate risks to shareowners but also reflect the recognition that ESG factors could present material risks to portfolio investments. The Sustainability Voting Guidelines were specifically formulated to meet the growing need by mainstream institutional investors to account for ESG elements in their voting practices, including signatories to the UN PRI looking to fulfill their obligations to the PRI from a proxy voting perspective. ISS liaised with the UN PRI Secretariat to help inform the development of the Sustainability guidelines.

Notwithstanding its engagement with ISS, Capstone maintains full proxy voting discretion and authority over all voting securities held by the Funds. While Capstone generally votes in accordance with the recommendations derived from the Sustainability Voting Guidelines, Capstone's portfolio managers are required to understand the implications of proxy contests on their positions. If Capstone's portfolio managers deem such a potential impact to be material to their investment thesis, they are required to select their votes in the best interest of the Fund(s). Such a selection may, from time to time, differ from that recommended by ISS. Additionally, at times, Capstone may determine it is in the Fund's best interest to abstain from exercising its proxy voting authority and will do so accordingly.

The US Department of Labor ("DOL") has provided guidance with respect to ERISA fiduciaries and their application of ESG policies to accounts with ERISA plan investors representing 25% or more of the account's AUM ("ERISA Funds"). Per the DOL, ERISA fiduciaries must solely seek economic benefit for the ERISA Fund and may not assume greater investment risks as a means of promoting collateral social policy. As such, Capstone takes the approach that ballots held by any of Capstone's ERISA Fund(s) will be separately instructed by the relevant portfolio manager in line with the economic interests of the ERISA Fund.

No less than annually, Capstone takes steps to ensure the capacity and competency of ISS.

Clients may obtain a copy of Capstone's proxy voting policy and its proxy voting record upon request.



## **CLASS ACTIONS**

Clients are sometimes entitled to participate in class action litigation brought by one or more plaintiffs against the issuer(s) of certain securities. Various sources may provide notification of these class actions.

Each class action involves certain legal rights that the owner/beneficiary of the security should consider before becoming a member of the class. A third party provider gathers the necessary information from outside sources, determines whether the Fund is eligible to file based on trading activity, files the claim on behalf of the Fund when appropriate, and monitors the class action throughout the process, which may be measurable in years. The vendor will maintain records of the class action.

As compensation for its services, the third party provider retains between 10-15% of the net proceeds of each settlement.



## *Item 18 – Financial Information*

Capstone is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its clients, and Capstone has not been the subject of a bankruptcy petition at any time during the past ten years.