

**FORM ADV PART 2A  
FIRM BROCHURE**

**Item 1.** Cover Page

**IONIC CAPITAL MANAGEMENT® LLC**

**475 Fifth Avenue, 9th Floor  
New York, New York 10017  
(212) 294-8500  
FormADV@ionicap.com  
www.ionicap.com**

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**This brochure is intended to present a general summary of the qualifications and business practices of Ionic Capital Management LLC. If you have any questions about the contents of this brochure, please contact us at (212) 294-8500 and/or FormADV@ionicap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Ionic Capital Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**The information contained herein is accurate as of the date hereof and is likely to change.**

**Being a "registered investment adviser" or describing ourselves as being "registered" does not imply a certain level of skill or training.**

**Ionic Capital Management® is a registered trademark of Ionic Capital Management LLC that is protected in the United States, Canada and elsewhere around the world.**

**THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITY.**

## **Item 2. Material Changes**

There have been no material changes to this Brochure since this brochure was last updated on August 6, 2019.

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## **Item 4. Advisory Business**

Ionic Capital Management LLC (“Ionic”) is a Delaware limited liability company founded in 2006 that provides advice on a discretionary basis to private investment funds (both commingled funds and funds-of-one) offered exclusively to sophisticated investors (collectively referred to herein as the “Ionic Funds”) as well as sub-advisory services to European UCITs funds (collectively referred to herein as the “Liquid Alternatives Funds,” and together with the Ionic Funds, the “Clients,” and each as a “Client”). Bart Baum and Daniel Stone (collectively, the “Principals”), are the principal beneficial owners of Ionic and collectively control its operations and activities.

Ionic is an alternative asset manager that employs long volatility, relative value arbitrage, credit and value strategies on behalf of its Clients. Ionic provides investment advisory services tailored to the investment objectives and strategies of each Client as described in each Client’s offering or governing documentation (collectively referred to herein as the “Fund Documentation”). Ionic is the investment adviser to the Ionic Funds and has been delegated primary responsibility for the day-to-day operations of the Ionic Funds. The Liquid Alternatives Funds have engaged Ionic to serve as a sub-adviser, and Ionic

is responsible only for providing discretionary investment advice for all or a portion of the assets of such funds.

All information relating to Ionic's Clients in this brochure, including but not limited to the investment strategies employed, fees and expenses, risk factors, and conflicts of interest, are qualified in their entirety by reference to such Fund Documentation.

As of December 31, 2019, the total regulatory assets under management of Ionic's Clients was approximately \$1,508,384,000. Ionic manages assets solely on a discretionary basis.

#### **Item 5. Fees and Compensation**

We do not currently have a fee schedule as the fees and expenses of our Clients vary and are specified in the Fund Documentation applicable to each Client. Each Client pays Ionic a management fee generally ranging from an annual rate of 1.00% to 1.75% of the Client's assets. Management fees generally are paid in arrears as of the end of each month, and are deducted directly from the accounts of the Ionic Funds (the Liquid Alternatives Funds are invoiced for management fees).

In addition to Management Fees, the Ionic Funds are subject to performance allocations, which generally are determined as a percentage of a fund's appreciation, subject to a "high water mark" provision. The specific terms relating to the structure and calculation of performance allocations and any related high water mark provisions, which vary among the Ionic Funds, are described in the Fund Documentation applicable to each Ionic Fund.

Investors in certain of the Ionic Funds are subject to early withdrawal or redemption charges under certain circumstances, as described further in the Fund Documentation relating to such funds.

In addition, to the extent applicable pursuant to the Fund Documentation, the Ionic Funds pay all operating and administrative costs and expenses they incur which include, without limitation: (i) brokerage commissions and other costs of executing transactions; (ii) investment expenses and all other expenses (including all commissions, clearing fees, interest and financing charges) related to the purchase, sale, transmittal or custody of investments and related items; (iii) legal, accounting, auditing and other professional fees and expenses, as well as the costs of negotiating trade-related and account-specific counter-party documentation; (iv) any taxes and similar amounts (including withholding and other taxes) and duties payable in any jurisdiction in connection with the Clients' operations; (v) fees and expenses in connection with the custody of Client assets; (vi) administrative expenses (including the fees and out-of pocket expenses of the administrator), paying agency, transfer agency, shareholder registrar services costs, costs and fees associated with the roles of tax matters partner and partnership representative, if applicable; (vii) certain software licensing fees (including, but not limited to, software licensing fees related to risk management, accounting, and risk analytics data included in Form PF), external programming or software development costs, and costs of cyber insurance; (viii) any other operating or administrative costs or expenses related to accounting, research, due diligence and reporting; (ix) costs and expenses relating to regulatory compliance, including the costs of regulatory filings (including, without limitation, filings the preparation and submission of which currently or in the future may be required of the Ionic Funds or Ionic under applicable law) and inquiries; (x) costs associated with fulfilling bonding requirements under ERISA; (xi) directors' fees and expenses; (xii) portions of premiums paid for errors and omissions insurance and any indemnification payments; and (xiii) organizational expenses.

For certain Ionic Funds, we may agree to pay a portion of such operating and administrative costs to the extent such costs exceed a specific amount.

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

Ionic Funds are subject to the performance allocations described in Item 5. The potential receipt of performance-based profit allocations from the Ionic Funds may create conflicts of interests between us, on the one hand, and our Clients, on the other hand. Specifically, the potential receipt of performance-based allocations may create an incentive for us to make riskier or more speculative investments than we otherwise would in the absence of such performance-based profit allocations and/or to allocate more profitable investment opportunities disproportionately among our Clients in order to maximize the amount of performance-based allocations we receive. Such conflicts, however, generally are mitigated by our allocation policy and Code of Ethics (as defined below), each of which require us to treat all Clients in a fair and equitable manner over time.

A detailed discussion of Ionic's allocation policy is set forth in Item 10 (Other Financial Industry Activities and Affiliations).

**Item 7.**        *Types of Clients*

Ionic currently serves as: (i) investment advisor to private investment funds (both commingled funds and funds-of-one) offered exclusively to sophisticated investors; and (ii) investment sub-advisor to European UCITs funds.

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

The investment strategies, methods of analysis, and material risks applicable to the investment strategies we employ are set forth in detail in the Fund Documentation applicable to each Client. A summary of the more significant investment strategies, and material risks associated with them is provided below. Ionic employs long volatility, relative value arbitrage, credit and value investment strategies globally across asset classes. Not all of the investment strategies and associated risks are relevant to all Clients. Certain of our Clients have very specific investment objectives and therefore we may only incorporate one of the investment strategies below whereas other Clients may utilize some combination of them. The specific investment strategies we employ on behalf of each Client are described in each such Client's respective Fund Documentation.

Long Volatility Investment Strategies: Ionic's long volatility strategies focus on generating negatively correlated returns and outperformance during uncertain markets. Ionic utilizes both explicit and imbedded options across asset classes, including equities, interest rates, currencies, commodities and credit in order to construct a portfolio that is typically positive convexity and long volatility.

Relative Value Arbitrage Investment Strategies: These strategies focus on generating capital appreciation with low volatility and reduced correlations to equities and credit. Ionic's relative value arbitrage strategies are implemented in a market neutral manner across convertible arbitrage, credit/rates relative value arbitrage, equity arbitrage and volatility arbitrage.

Credit Investment Strategy: Ionic's credit strategy focuses on generating positive risk adjusted returns with low correlation to overall market direction. The Ionic Funds employing this strategy seek to capitalize on market opportunities with relative value and directional strategies that offer asymmetric payout profiles.

Value Investment Strategy: Ionic's value investment strategy incorporates rigorous fundamental analysis in an attempt to identify compelling long (and short) investment opportunities in securities of companies that are trading at a substantial discount (or premium) to intrinsic value. The Ionic Funds pursuing this strategy expect to employ a relatively concentrated portfolio construction approach, with a flexible mandate to maintain the ability to adapt to rapidly evolving market conditions. Ionic's value strategy emphasizes liquid investments in equity securities of companies that operate in attractive, growing industries and maintain solid balance sheets and free cash flow generation capability.

### **Hybrid and Other Strategies**

Ionic may implement hybrid strategies incorporating elements of directional, relative value, volatility, event-driven, credit and other approaches, as well as a variety of opportunistic investment tactics. As market conditions and profit opportunities change, so will Ionic's market approaches and implementations.

### **Evolving Strategies and Allocations**

Ionic has complete flexibility in selecting the assets traded and the investment strategies implemented for our Clients. In doing so Ionic emphasizes the investment strategies for which it believes it provides a competitive advantage.

The investment strategies discussed herein may – in fact, can be expected to, evolve over time due to a number of factors, such as market developments and trends, the emergence of new investment products, changing industry practices and technological innovations. While the investments made on behalf of our Clients will be consistent with their respective investment objectives, Ionic may develop and implement new trading and investment strategies on an ongoing basis, as we seek to exploit profit and investment opportunities.

### General Risks

The investment strategies employed by Ionic on behalf of its Clients involve substantial risk, including the risk that the entire amount invested will be lost. The following is a summary of the material risks associated with Ionic's investment strategies. For ease of reference, the term "Ionic Funds" as used below and in Item 10 (Other Financial Industry Activities and Affiliations), should be deemed to include the portion of the assets of the Liquid Alternatives Funds sub-advised by Ionic.

Not all of the risks discussed below will apply to each of the Ionic Funds and to the extent a risk applies to more than one Ionic Fund, such risk may not apply equally to such Ionic Funds. With respect to the Liquid Alternatives Funds, the risks discussed below may be applicable only to the portion of the assets of such funds sub-advised by Ionic. The risks discussed below are only a portion of the risks associated with an investment in an Ionic Client, and is not a complete description of the risks associated with an investment in any Ionic Fund or Liquid Alternatives Fund as a whole. An investment in the Ionic Funds involves a high degree of risk. Ionic cannot assure any investor that an Ionic Fund's investment objective will be achieved or that such investor will not lose all or substantially all of such investor's investment. The past performance of an Ionic Fund is not necessarily indicative of its future results — particularly given the speculative nature of its strategies and the markets in which the Ionic Funds invest. Eligible investors should carefully evaluate the risks involved with an investment in an Ionic Fund before deciding whether to invest in one or more of the Ionic Funds.

FOR A COMPLETE DISCUSSION OF THE RISKS ASSOCIATED WITH IONIC'S INVESTMENT STRATEGIES, AS WELL AS THE RISKS ASSOCIATED WITH AN INVESTMENT IN AN IONIC FUND, ELIGIBLE INVESTORS SHOULD REFER TO THE APPLICABLE FUND DOCUMENTATION.

### **Possible Positive Correlation with Stocks and Bonds**

While Ionic intends for its investment strategies to have non-correlated returns, there can be no assurance that the Ionic Funds will, in fact, experience a low level of correlation with a traditional portfolio of stocks and bonds or with the debt or equity markets generally.

### **Use of Leverage and Availability of Credit**

Certain Ionic Funds may invest on a highly leveraged basis, both through their borrowings and through the significant degree of leverage typically embedded in the derivative instruments in their portfolios. The use of leverage is integral to many of the investment strategies implemented by the Ionic Funds, and such Ionic Funds depend on the availability of credit in order to finance their portfolios. There can be no assurance that the Ionic Funds will be able to maintain adequate financing arrangements under all market circumstances.

As a general matter, the banks and dealers that provide financing to the Ionic Funds can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Ionic Funds to liquidate all or a portion of their portfolios at disadvantageous prices. There can be no assurance that the Ionic Funds will be able to obtain adequate financing to pursue their investment programs and achieve their objectives.

Ionic measures total leverage as a fraction with the numerator being the total long market value of all positions in the relevant Ionic Fund as calculated by Ionic in accordance with its internal models and assumptions and the denominator being the net asset value. This method of calculating leverage captures borrowings by the relevant Ionic Fund but does not capture the embedded leverage in the derivative instruments in the portfolio. Utilizing other measurements of risk or exposure, such as gross notional exposure or value at risk, could yield materially different results.

In markets with fewer opportunities, Ionic anticipates decreasing leverage and in very cheap and/or dislocated markets it might increase leverage. Different strategies will have different degrees of leverage. Losses incurred on the Ionic Funds' leveraged investments increase in direct proportion to the degree of leverage employed.

Leverage includes not only increased risk, but may also include substantial interest expense. Even if leveraged positions are profitable, if such positions do not generate gains in excess of the interest expense incurred, the Ionic Funds will incur losses on such positions.

## **Credit Analysis and Credit Risk**

The investment strategies to be utilized by Ionic may require accurate and detailed analysis of the capital structure of issuers, including credit analysis. There can be no assurance that Ionic's credit analysis will be accurate or complete. The Ionic Funds may be subject to substantial losses in the event of credit deterioration, default, or bankruptcy of one or more issuers in their portfolios. While the Ionic Funds generally intend to hedge credit risk, there can be no assurance that the Ionic Funds will have the ability to establish such hedges in the market place or, if established, that the hedges will offset losses.

## **Reliance on Corporate Management and Financial Reporting**

Many of the strategies implemented by the Ionic Funds rely on financial information made available to the public under applicable law. Ionic has no duty or ability to independently verify such information and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Recent history has demonstrated that investors, such as the Ionic Funds, can incur material losses as a result of corporate mismanagement, fraud and accounting irregularities.

## **Counterparty Risk**

Depending on the particular strategy or strategies employed, an Ionic Fund may invest in complex derivative instruments such as options, futures, forwards, and swaps. While some derivatives are traded on exchanges (e.g., options and futures), a number of complex derivative instruments still trade "over-the-counter." Such derivative instruments generally have counterparty risk that can result in a loss of all or part of an investment. Participants in "over-the-counter" markets are typically not subject to independent credit evaluation and regulatory oversight to the same extent as are members of "exchange-based" markets. While the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires centralized clearing of certain derivatives, not all derivatives are subject to clearing requirements. Trading over-the-counter exposes the Ionic Funds to the risk that a counterparty will not settle a transaction or will fail to make payments or return collateral in accordance with the terms of the instrument. Past turbulence in the financial markets highlights the importance of being aware of counterparty risk resulting from OTC derivative transactions. Delays in settlement or the financial failure of a counterparty to an OTC derivative could result in substantial losses due to adverse market movements, incurring additional costs, inability to recover pledged collateral, or other reasons. Such "counterparty risk" is present in all "over-the-counter" derivative transactions, and is accentuated for contracts with longer maturities or where the Ionic Funds have concentrated their transactions with a single or small group of counterparties. Recent collapses of large derivative dealers illustrate the risks of such trading.

## **Broker and Custodian Insolvency**

There are significant risks involved in dealing with the custodians or brokers who settle the Ionic Funds' trades. Even after Dodd-Frank, if a custodian or broker were to become insolvent, the Ionic Funds may be able to recover only a portion of their assets. In broker insolvencies, customers typically have been unable to timely access assets in their accounts and/or recover the full amount of their "customer property" and/or funds. Should a broker, custodian or counterparty of the Ionic Funds become insolvent, the Ionic Funds to suffer losses and/or materially diminish the actual or potential profitability of certain positions or strategies.

The Ionic Funds may trade with or hold accounts at foreign brokers registered under the laws and regulations of other countries. Such brokers and/or dealers may not be subject to the same or similar

customer fund regulations (including customer segregation requirements) as those existing in the United States and, in some jurisdictions, the Ionic Funds may only be an unsecured creditor of its broker or dealer in the event of the bankruptcy or administration of such broker or dealer.

## **Market Risks in General**

Ionic's investment strategies are subject to a wide range of both outright and derivative market risks. There can be no assurance that an investment opportunity will not result in substantial losses due to one or more of a wide variety of factors. Certain general market conditions could materially reduce the Ionic Funds' profit potential, and even in favorable market conditions the Ionic Funds can only be successful if Ionic is able to invest successfully in the face of competition with funds and management firms with resources that materially exceed that of both the Ionic Funds and Ionic.

Ionic's strategies are subject to market risk such as directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality," "credit squeezes," etc. Ionic's investment strategies should not be considered less speculative than traditional investing strategies. Many alternative investment strategies similar to those employed by Ionic have from time to time incurred sudden and dramatic losses.

The particular or general types of market conditions in which the Ionic Funds may incur losses or experience unexpected performance cannot fully be predicted, and the Ionic Funds may materially underperform other investment funds with substantially similar investment objectives and approaches.

While Ionic generally will seek to limit market and other risks via hedging and diversification, certain market and other risks, by their nature, are not capable of being hedged. Ionic's investment strategies are subject to such risks, as well as to risks that could be, but either are not, or are not properly, hedged. At the same time, hedging itself involves risks and expenses, and may not, in fact, reduce risk if expected correlations or non-correlations do not materialize. To the extent that Ionic hedges, the success of such hedges will depend on a number of factors, including Ionic's ability to implement such strategies efficiently and cost effectively, as well as on the accuracy of Ionic's ongoing judgments concerning the hedging positions to be acquired by the Ionic Funds. Moreover, the diversification of the Ionic Funds' positions and strategies may not always provide meaningful risk control, and may even reduce the Ionic Funds' profit potential if certain strategies are unprofitable while others are profitable.

## **Volatility**

The prices of the instruments to be traded by the Ionic Funds have been subject to periods of excessive volatility in the past and such periods can be expected to recur. Many unpredictable factors, such as market sentiment, significant changes in inflation rates, interest rates, credit spreads, and general economic and political conditions, as well as inflation, demand for commodities and currency exchange rates influence price movements. Volatility resulting from such factors can disrupt historical or theoretical pricing relationships, causing what should otherwise be comparatively low risk positions to incur losses.

On the other hand, a lack of or a decrease in volatility can also result in losses for the Ionic Funds, particularly Ionic Funds that employ strategies that are "long" volatility. In general, when utilizing relative value and long volatility strategies, a certain degree of market volatility is necessary in order for such strategies to be profitable. In periods with reduced volatility, trendless and/or stagnant markets, such strategies may have materially diminished prospects for profitability. For example, volatility is one of the principal components of options pricing, and a lack of volatility can result in certain Ionic Funds

incurring major losses on options sold (written) or purchased if such options are never, in fact, “in the money.”

### **Interest Rate Fluctuations**

The prices of the Ionic Funds’ investments may be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of the long and short portions of a position to move in directions that were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the Ionic Funds of borrowed securities and leveraged investments.

### **The Risks of Trading Options Volatility**

Trading option volatility is one of the most complex of all financial strategies 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 and volatility of the underlying security, and general market sentiment. Not only will different traders differ among themselves concerning the correct theoretical value for a given option, but actual and theoretical values may diverge for extended periods of time. There can be no assurance that Ionic will correctly assess the true investment value of options traded for the Ionic Funds. The Ionic Funds could incur substantial losses in situations where the theoretical and actual values of an option continue to diverge or continue to regress in a manner that Ionic did not anticipate. In addition, the Ionic Funds could incur substantial losses in situations where there is a decrease in or lack of volatility, as the values of options typically remain stagnant or fall in such circumstances.

### **Lack of Liquidity**

Certain Ionic Funds trade in markets that either are or may become illiquid. Lack of liquidity can make it economically unfeasible for such Ionic Funds to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disconnect market values from the historical pricing indicators used in certain aspects of Ionic’s investment analysis, as the fewer transactions that take place, the greater the risk of market values not reflecting true pricing relationships or actual values.

In illiquid or less liquid markets, if an event that Ionic believed would occur does not, in fact, occur, other investors implementing similar strategies may be likely to seek to unwind positions in the same securities at or about the same time, potentially exacerbating the market illiquidity and the losses incurred in the course of unwinding such positions.

Trading in illiquid securities often requires more time and results in higher brokerage charges, dealer spreads and other transaction expenses than are incurred in the trading of more liquid securities. In addition, trading in illiquid securities increases the risk of an Ionic Fund’s transactions having a significant impact on market prices of the securities in which the relevant Ionic Fund is attempting to transact.

### **Market Disruptions**

Market disruptions can impact the Ionic Funds in ways which cannot be predicted. Such disruptions occur from time to time and typically result in material losses for many alternative investment strategies. The success of Ionic’s strategies depends, in part, on a certain level of liquidity in the markets. As a

result, market disruptions that cause temporary or prolonged boughs of illiquidity may cause the Ionic Funds to suffer losses. For example, during periods of market disruption, dealers and other counterparties may make the terms of the credit extended to the Ionic Funds materially more onerous, which may force the Ionic Funds to liquidate their portfolios prematurely. Market disruptions caused by unexpected political, regulatory, military and terrorist events may from time to time cause dramatic losses for the Ionic Funds, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

### **Suspension of Trading**

A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the Ionic Funds to liquidate positions against which the market is moving. There is also no assurance that non-exchange markets will remain liquid enough for the Ionic Funds to close out positions.

### **Convertible Arbitrage Strategy Risk**

Convertible arbitrage generally involves acquiring convertible bonds or other securities and selling short a corresponding amount of the underlying equity security or vice versa. A number of risks could affect the results of this strategy, including, but not limited to the following: (i) a decrease or stagnation of volatility; (ii) dramatically rising interest rates; (iii) a constriction of the convertible bond market generally; (iv) a widening in credit spreads that leads to a decrease in the price of convertible bonds without a corresponding increase in yield; (v) the difficulty in entering and profitably exiting trades focused on convertible securities; (vi) the inherently imperfect and dynamic hedging relationship involved in convertible hedging; and (vii) certain corporate actions or transactions by an issuer of relevant convertible securities that materially adversely affect the price of such issuer's convertible securities.

### **Distressed and High Yield Investing**

The Ionic Funds may from time to time invest in securities issued by companies in weak and/or deteriorating financial conditions, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information concerning such issuers. Investments in companies that are or become involved in bankruptcy or reorganization proceedings also may be adversely affected by the laws of one or more jurisdictions relating to, among other things, "fraudulent conveyances" and other voidable transfers or payments, "lender liability" and the bankruptcy court's power to disallow, reduce, subordinate and/or disenfranchise particular claims. In liquidation and other forms of corporate reorganizations, there is the risk that the reorganization will be unsuccessful, be delayed significantly or will result in a distribution of cash or assets the value of which is less than anticipated. Such investments can result in significant or even total losses. In addition, the markets for distressed and high yield assets may be subject to abrupt and erratic price movements and excessive price volatility, and are frequently illiquid.

### **Directional Trading**

Certain of the positions taken by the Ionic Funds may be designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect

of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

### **Long/Short Trading**

In long/short strategies, certain of the Ionic Funds generally seek to assemble a portfolio of stocks, or options, expected to outperform (in the case of long positions) or underperform (in the case of short positions) the general market or portions of the market. There can be no assurance that the securities in question will perform in the manner expected and both long and short positions may incur losses at or about the same time.

### **Relative Value Strategies**

The success of the Ionic Funds' relative value strategies is dependent on Ionic's ability to identify and exploit mispricings among securities. Although relative value strategies are generally considered to have a lower risk profile than purely directional trades, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which the Ionic Funds maintain their positions. The Ionic Funds' relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. In addition, relative value positions entail a substantial risk that the price differentials remain constant or change unfavorably and result in losses. Changes in the shape of the yield curve can cause significant changes in the profitability of relative value strategies.

Recent market conditions have materially reduced the profitability of relative value trading — in part due to the number of market participants seeking to exploit the same perceived mispricings. Additionally, given certain of the Ionic Funds' emphasis on positive convexity or long volatility, it will be difficult to generate positive returns in stagnant, non-trending markets, during periods of decreasing volatility, or if there were to be a liquidity crisis and dislocation in the Ionic Funds' strategies (*e.g.*, summer 1998, first quarter 2005) such Ionic Funds would most likely experience losses.

### **Hybrid and Other Strategies**

In certain market conditions, the trading components combined in a hybrid strategy may detract from rather than complement each other, and the combination of these components may involve unanticipated risks.

### **Developing Investment Strategies**

Ionic generally applies strategies based on those it has implemented in the past, but these strategies will necessarily develop and change on an ongoing basis as Ionic's resources, infrastructure, and markets, change. In addition, Ionic may add new strategies and is not restricted from using certain of the Ionic Funds' capital to develop and incubate new strategies, including those in which Ionic has limited experience. There can be no assurance that Ionic will be successful in developing existing or implementing new strategies or that such Ionic Funds will not suffer material losses as a result of the development or incubation of a given strategy.

### **Debt Securities**

The debt securities in which certain Ionic Funds may invest may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. In addition, certain Ionic Funds may invest

in low investment grade or non-investment grade debt securities, which are typically subject to greater market fluctuations and risks of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. The applicable Ionic Funds' investments in debt securities may experience substantial losses due to adverse changes in interest rates and the market's perception of issuers' creditworthiness.

## **Derivatives**

The Ionic Funds invest in derivative financial instruments, including, without limitation, warrants, options, swaps, swaptions, options on convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, equity swaps, and credit default swaps, and may use derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the theoretical and realizable value of a derivative (*i.e.*, due to nonconformance to anticipated or historical correlation patterns). These anticipated risks (and other risks that may not be anticipated) may make it difficult as well as costly to the Ionic Funds to close out positions in order either to realize gains or to limit losses.

Many of the derivatives that may be traded by the Ionic Funds are OTC contracts between the relevant Ionic Fund and third parties entered into privately, rather than on an exchange or via a clearinghouse. As a result, the Ionic Funds will not be afforded the regulatory and financial protections of an exchange or a clearinghouse (or of the government regulator that oversees such exchange and clearinghouse) with respect to derivatives that are traded OTC. In privately negotiated transactions, the risk of the negotiated price deviating materially from actual value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would be willing to pay for such derivative should the relevant Ionic Fund wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the Ionic Fund's net asset value and may have a material adverse effect on the Ionic Fund in situations in which the Ionic Fund is required to sell derivative instruments.

The Ionic Funds may utilize a wide range of derivative instruments as part of their trading strategies. The terms of many derivative contracts generally contain early termination provisions that allow the counterparty to terminate such contract in numerous circumstances. If a derivative counterparty were to validly exercise such provisions, such exercise would trigger cross-acceleration provisions in such Ionic Fund's agreements with its other counterparties giving the other counterparties the right to close out the Ionic Fund's positions with such counterparty, potentially resulting in the closing out of all of such Ionic Fund's positions. Such an event would have a material adverse effect on the value of that Ionic Fund's portfolio.

## **Options**

The seller (writer) of a call option that is covered (*i.e.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying

security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of the call option may be unavailable for purchase by such writer except at much higher prices. Purchasing securities to satisfy the exercise of the call option can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire investment in the call option.

The seller (writer) of a put option that is covered (*i.e.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

### **Currency Markets and Currency Risk**

Certain of the Ionic Funds invest in currencies and foreign exchange. Such transactions involve a significant degree of risk and the markets in which foreign exchange transactions are effected are volatile, specialized and technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, maturity gaps, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, local currencies, foreign investment or particular transactions in foreign currency. In addition, investments that are denominated in a particular currency are subject to the risk that the value of such currency will change, either in absolute terms or in relation to one or more other currencies, in a manner that the Investment Advisor did not expect. Among the factors that may affect currency values are trade balances, the levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment, capital appreciation, and economic and political developments.

### **Futures Contracts**

The Ionic Funds trade futures contracts, including options on futures contracts. Futures markets are highly volatile and are influenced by complex and inter-related factors, such as, among other things, changing supply and demand relationships, changes in interest and exchange rates, governmental, commercial and trade programs and policies designed to influence prices and/or exchange rates and world political and economic events. Trading in futures and futures options contracts involves a high degree of leverage. The Ionic Funds' futures positions may also be subject to periods of illiquidity due to "daily price fluctuation limits" or "daily limits" imposed by certain exchanges, during which no trades may be executed, or executed at prices beyond the daily limits. Such limits could prevent the Ionic Funds from promptly liquidating unfavorable positions and subject it to losses.

In addition, to the extent the Ionic Funds trade futures contracts on physical commodities, such futures contracts may be susceptible to significant short-term price volatility, potentially to a greater extent than futures contracts based on other assets, as a result of a variety of factors, including weather-related events, supply and demand, climatic conditions, transportation difficulties, natural disasters, as well as global or regional political, economic or financial events.

### **Non-U.S. Securities and Emerging Markets**

The Ionic Funds may trade and invest in securities of companies domiciled or operating in one or more non-U.S. countries and make other investments in entities located outside the U.S., including in countries that are considered to be “emerging markets.” The Ionic Funds may incur higher expenses in connection with investment in non-U.S. securities. Investing in non-U.S. securities, and in emerging markets in particular, can involve risks not typically expected when trading in markets in the U.S. and developed markets, including, but not limited to, governmental and political instability, the possibility of expropriation, limitations on the use or removal of funds or other assets, more limited disclosure and access to information, the possible lack of uniform accounting, auditing and financial reporting standards, potential difficulties in enforcing contractual obligations, and the application of non-U.S. tax laws.

### **Model Risk**

Certain of Ionic’s strategies require the use of quantitative valuation models that it has developed, as well as valuation models developed by third parties and made available to Ionic. As market dynamics (for example, due to changed market conditions and participants) shift over time, a previously highly successful model is subject to becoming outdated or inaccurate, likely without Ionic being able to recognize that fact before substantial losses are incurred. There can be no assurance that Ionic will be successful in continuing to develop and maintain effective quantitative models.

### **Importance of Market Judgment**

Although Ionic uses quantitative valuation models in evaluating the economic components of certain prospective trades, Ionic’s strategies are by no means wholly systematic; the market judgment and discretion of Ionic’s personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable a trading strategy becomes.

### **Short Sales**

As an integral part of its trading strategies, the Ionic Funds routinely sell securities “short.” A short sale is effected by selling a security that the relevant Ionic Fund does not own, or selling a security that the Ionic Fund owns but that it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the relevant Ionic Fund 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 relevant Ionic Fund must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period as well as any fees or premiums to borrow the security. 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 relevant Ionic Fund. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing any loss incurred by such Ionic Fund. Furthermore, the Ionic Fund may be forced to close out a short position prematurely if a counterparty from which the relevant Ionic Fund borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

### **Hedging**

Ionic will cause the Ionic Funds to enter into hedging transactions with the intention of reducing or controlling risk. However, even if Ionic is successful in doing so, the hedging will reduce the Ionic Funds’ returns. Furthermore, it is possible that hedging strategies will not be effective in controlling risk,

due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses.

### **Trade Execution Risk**

Certain of the trading techniques that may be utilized by the Ionic Funds require the rapid and efficient execution of transactions. Inefficient executions can eliminate the small pricing differentials that Ionic seeks to exploit and impact, possibly materially, the profitability of the Ionic Funds' positions.

### **Trading Error Risk**

Trading errors are an intrinsic factor in any complex investment process, and will occur, notwithstanding the use of due care and special procedures designed to prevent such errors. If trading errors do occur, and unless the relevant investment advisory agreement or other similar agreement states otherwise, such errors are for the account of the relevant Ionic Fund, unless they are the result of conduct inconsistent with the standard of care set forth in the relevant investment advisory agreement.

### **High Portfolio Turnover**

Certain of the strategies employed by the Ionic Funds require frequent trading, increasing portfolio turnover, brokerage commissions and other transaction fees and expenses, as well as the risk of trading errors, which could have an adverse effect on the performance of strategies employed by the Ionic Funds.

Please see Items 4 (Advisory Business), 10 (Other Financial Industry Activities and Affiliations), 11 (Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading) and 12 (Brokerage Practices).

### **Item 9. Disciplinary Information**

This item is not applicable.

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

Ionic Capital Management LLC is registered as a "commodity pool operator" and "commodity trading advisor" with the CFTC and is a member of the NFA.

### **Potential Conflicts of Interest**

The Ionic Funds are subject to a number of actual and potential conflicts of interest, as described below:

### **Management Time; Other Clients; Allocation of Investment Opportunities**

Ionic and its affiliates, owners, officers, directors, managers and employees ("Ionic Parties") are required to devote only such business time and attention to the conduct of the business and affairs of the Ionic Funds as Ionic may deem necessary or advisable. Ionic Parties are free to devote such time and attention as they may determine to other Ionic Funds or to other activities unrelated to the affairs of a single Ionic Fund. Neither an Ionic Fund nor its investors (in its capacity as such) has any rights in or to such other activities or the income or profits derived therefrom.

Each Ionic Fund may have different terms of investment such as different fee and liquidity terms. Ionic utilizes many of the same investment strategies for each of the Ionic Funds. There are no restrictions on our ability to provide investment advisory or other services to additional clients in the future, whether or not the accounts will have the same or different investment objectives, or employ the same or different investment strategies as those used by the Ionic Funds. Further, Ionic may make investment decisions on behalf of a given Client that is identical, dissimilar or contrary to the investment decisions that Ionic makes on behalf of another Client.

Ionic may determine that an investment opportunity is appropriate for a particular Ionic Fund, but not for one or more other Ionic Funds. Situations may arise in which certain Ionic Funds have made investments that would have been suitable for investment by other Ionic Funds but, for various reasons, were not pursued by, or available to, such other Ionic Funds. The ability of one or more of the Ionic Funds to invest in the same investment or to invest in the same amounts or on the same terms may be adversely affected by any limitation on the availability of the investment. In addition, Ionic may be required to choose among one or more of the Ionic Funds in allocating investments, and considers a variety of factors when choosing to allocate investments among the Ionic Funds. Notwithstanding the foregoing, Ionic allocates investment opportunities among Ionic Funds in a manner which it believes is fair and equitable to all Ionic Funds over time, taking into account necessary considerations.

In the event that a determination is made that more than one Ionic Fund should participate in a trade or trades made on the same day, the securities traded will be allocated among the Ionic Funds in a manner which Ionic believes to be fair and equitable to the Ionic Funds receiving a portion of such trade(s), taking into account the circumstances of each such Ionic Fund, such as, for example, their investment strategies, current investment positions, relative capitalizations and available cash, investment time horizons, leverage ratios, etc. As a result, allocations of trades in which multiple Ionic Funds participate may not be made on a *pro rata* basis due to the consideration of such factors. For example, Ionic, in its good faith discretion, may determine that a particular Ionic Fund should receive less than a *pro rata* allocation of one or more trades for a variety of reasons, including, but not limited to, because the investment strategy of such Ionic Fund is narrower than the investment strategies of other Ionic Funds being allocated a portion of the trade, because such Ionic Fund already has reached targeted exposures or guidelines, or because such Ionic Fund has less available capital. Circumstances may occur, however, in which allocations made in a way Ionic believes to be fair and equitable still have adverse effects on one or more Ionic Funds with respect to the price or size of securities positions obtainable or saleable.

The investment advisory agreements with the Ionic Funds authorize Ionic to combine purchase and sale orders on behalf of the Ionic Funds and to allocate securities or other assets so purchased or sold on an average price basis among such Ionic Funds. Therefore, when Ionic has determined that more than one Ionic Fund should participate in a specific trade, Ionic generally combines (i.e., aggregates) the quantity of securities to be traded and places an order that, once executed, will be allocated among multiple Ionic Funds on an average price basis.

From the standpoint of the Ionic Funds, aggregated trades may, in certain market conditions, decrease the prices received, and increase the prices required to be paid, by the Ionic Funds for their portfolio sales and purchases. Further, even in circumstances where it is consistent with the investment objectives of multiple Ionic Funds to participate in an aggregated trade, it may not always be possible for each Ionic Fund to do so at the same time or at the same price; however, even when such circumstances exist, all transactions will be made on a “best execution” basis.

## **Personal Trading**

Personnel associated with Ionic may trade for their personal and perhaps other accounts at the same time that they will be trading for the Ionic Funds. While Ionic has adopted a code of ethics in an attempt to prevent any such trading harming the Ionic Funds, Ionic's personnel will have a conflict of interest in devoting time to trading such other accounts (including personal accounts) and trading for the Ionic Funds.

Please see Items 4 (Advisory Business), 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 11 (Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading) and 12 (Brokerage Practices).

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

Ionic has adopted a code of ethics adopted pursuant to SEC rule 204A-1. Our code of ethics requires compliance with all applicable laws and regulations governing the provision of investment management services to our Clients. In addition, our code of ethics highlights the fiduciary duty that we owe to our Clients, including the affirmative duty to act in the best interests of our Clients and to make full and fair disclosure of all material facts. We also expect Ionic personnel to adhere to the highest standards with respect to any potential conflict of interest with Clients.

Our code of ethics has specific provisions relating to identifying potential conflicts of interest. The provisions prohibit Ionic personnel from directing Client transactions in order to obtain a personal benefit as well as from conducting business dealings with Clients, investors or service providers without the prior approval of our Chief Compliance Officer or his designee. Our code of ethics also includes provisions relating to accepting offers of gifts or entertainment from third parties.

Ionic personnel are required to conduct all personal securities transactions in full compliance with our code of ethics, and should not take any action in connection with personal securities transactions that could cause even the appearance of unfairness or impropriety, relative to our Clients. Ionic personnel are required to promptly bring ambiguous situations to the attention of our Chief Compliance Officer or his designee, and such situations will be resolved in favor of Client interests.

Additionally, our code of ethics requires Ionic personnel, among other things, to: (i) have all personal securities transactions involving reportable securities pre-approved by our Chief Compliance Officer or his designee and are subject to a holding period; (ii) report all their personal securities transactions involving reportable securities to our Chief Compliance Officer or his designee periodically in accordance with Rule 204A-1; and (iii) certify their compliance with our code of ethics on at least an annual basis.

Finally, our code of ethics requires Ionic personnel to promptly report all violations of the code of ethics to our Chief Compliance Officer or his designee, who is primarily responsible for administering and enforcing our code of ethics.

We will provide any Client or prospective client with a copy of our code of ethics upon request by contacting our Chief Compliance Officer at the following address:

c/o Ionic Capital Management LLC  
475 Fifth Avenue, 9<sup>th</sup> Floor  
New York, New York 10017

Attention: Chief Compliance Officer  
Telephone: 212-294-8500  
FormADV@ionicap.com

Ionic does not recommend to Clients, or buy or sell for Client accounts, securities in which Ionic or our related persons have a material financial interest. Although the Principals and other Ionic personnel may buy and sell securities for their own accounts or the account of others, they may not buy securities from or sell securities to Clients.

Please see Items 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

**Item 12.** Brokerage Practices

Ionic determines the broker or dealer to be used for each securities transaction for our Clients. In selecting a broker for each specific transaction, we will use our best judgment to choose the broker most capable of providing “best execution” on an over-all basis taking into account the circumstances of each specific transaction. Brokers are selected on the basis of our evaluation of the overall value and quality of the services provided by the broker. No one factor controls our decision. Among other things, we consider the price of the security, commission rate, execution speed, confidentiality, market depth, capital commitment, recent order flow, knowledge of the other side of the trade and the quality of the broker’s service (including, but not limited to, accuracy, reputation, timeliness, research, responsiveness and any soft dollar arrangements, if applicable). In selecting brokers or dealers to execute transactions for Clients, we are not required to solicit competitive bids and have no obligation to seek the lowest available commission cost. We do not always negotiate “execution only” commission rates; accordingly, Clients may be deemed to be paying for other services provided by the broker to Ionic’s Clients, Ionic or their respective affiliates that are included in the commission rate.

Our application and importance of the specific criteria will vary depending upon the nature of the transaction, the asset class, the market in which it is effected, and the extent to which it is possible to select from among multiple brokers or dealers capable of effecting the transaction.

As of January 1, 2016, Ionic ceased generating soft dollars in respect of its Client accounts. While we reserve the right to utilize soft dollars in the future, research related expenses covered by the Section 28(e) “safe harbor” (described below) are directly expensed to the applicable Client in a fair and equitable manner where permitted pursuant to the Fund Documentation. Section 28(e) of the Securities Exchange Act of 1934, provides a “safe harbor” to investment managers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to us in the performance of investment decision-making responsibilities. The agreements we have with the Ionic Funds permit Ionic to use “soft-dollars” to pay for 28(e)-eligible expenses.

We consider investor referrals in selecting or recommending the prime brokers for the Ionic Funds and have an incentive to select or recommend prime brokers based upon investor referrals, rather than just the most favorable execution. As part of the selection process for the prime brokers to be utilized for the Ionic Funds, the quality of the capital introduction services is a factor in making such decision. However, Ionic does not direct trades to the prime brokers in return for investor referrals.

As explained in Item 10, above, Ionic will generally aggregate trades, unless it believes that doing so would conflict or otherwise be inconsistent with its duty to seek best execution for its Clients, and/or the

terms of the respective investment advisory contracts and other agreements and understandings relating to the accounts for which trades are being aggregated.

We have established a brokerage committee to, among other things, review and make determinations on a periodic basis relating to the broker-dealers with whom we execute transactions and the soft dollar benefits we receive.

**Item 13.**        *Review of Accounts*

We review the accounts of the Ionic Funds on a monthly basis. During the month-end reconciliation process with the administrator, our Chief Financial Officer and Controller are primarily responsible for reviewing the accounts of the Ionic Funds. As part of that process, they reconcile the internal general ledger, portfolio, and profits and losses to the administrators' independent net asset value calculations prior to the administrator's release of the net asset value statements to investors in the Ionic Funds. In addition, our pricing committee formally meets to approve the month-end estimates and final net asset value for each of the Ionic Funds.

Ionic will furnish to each investor in the Ionic Funds a report of the applicable Ionic Fund's estimated performance as soon as practicable after the end of each week and after the end of each month, as well as its month-end risk report and such other information as Ionic may deem appropriate. In addition, the administrator will send to each investor a monthly statement reflecting the net asset value, including any increase or decrease, of such investor's investment during the preceding month. As soon as practicable after the end of each fiscal year, the Ionic Funds furnish to each investor audited financial statements as of the end of such fiscal year.

**Item 14.**        *Client Referrals and Other Compensation*

Please see Items 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

**Item 15.**        *Custody*

Not applicable.

**Item 16.**        *Investment Discretion*

Pursuant to the investment advisory agreements and other similar agreements with our Clients, as applicable, Ionic has discretionary authority to manage the assets of such Clients. These agreements generally include a power of attorney given to us and our affiliates.

While the Liquid Alternative Funds generally have certain investment restrictions applicable to their respective strategies, there are no limitations on Ionic's investment authority for the Ionic Funds.

Please see Item 4 (Advisory Business).

**Item 17.**        *Voting Client Securities*

We have been delegated the authority and right to vote proxies received by Clients. Ionic's proxy voting policy requires us to vote proxies in the manner we determine to be in the best interests of our Clients. We monitor corporate events and vote proxies on behalf of those Clients that have authorized us to do so. When considering how to vote a proxy on behalf of a Client, we analyze the issues involved with the

proposals to be voted upon, including their probable impact on corporate operations, the company's stock and the financial markets, as well as the recommendation of company management.

Our proxy voting policy does not mandate that we vote every proxy that we receive, and there may be circumstances when not voting a proxy is in a Client's best interest, such as if the costs of voting the proxy exceeds the expected benefit to the Client (such costs include the value of our time).

If a proxy vote creates a material conflict between our interests and the interests of Clients, we will resolve the conflict before voting the proxies. We will either disclose the conflict to the applicable Clients or take other steps designed to ensure that any vote cast via proxy is in the Client's best interests.

Clients cannot generally direct how we vote in a particular situation.

Clients may obtain, free of charge, a copy of our proxy voting policies and procedures and/or a record of proxy votes cast since the effective date of our registration with the SEC by contacting our Chief Compliance Officer at the following address:

c/o Ionic Capital Management LLC  
475 Fifth Avenue, 9<sup>th</sup> Floor  
New York, New York 10017  
Attention: Chief Compliance Officer  
Telephone: 212-294-8500  
FormADV@ionicap.com

**Item 18.** Financial Information

This Item is not applicable.

**Item 19.** Requirements for State-Registered Advisers

This Item is not applicable.