



# QUAD ASSET MANAGEMENT LP

*a Registered Investment Adviser*

*Form ADV Part 2A: Firm Brochure*

March 30, 2020

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This brochure provides information about the qualifications and business practices of Quad Asset Management LP (hereinafter “QAM” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at this telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since QAM's most recent update, filed March 30, 2019.

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## Item 4. Advisory Business

QAM offers a variety of advisory services but primarily provides investment management services to other investment advisers, hedge fund managers and family offices. Prior to QAM rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements with QAM setting forth the relevant terms and conditions of relationship.

John Guarino is the managing member of Quad Fund Advisors GP LLC (the “General Partner”), a Delaware limited liability company that serves as the general partner to the partnership. QAM is primarily owned by John Guarino, Guerino Ciampi and Quad Securities Holdings, LLC. Quad Capital Management Advisors, LLC (“Quad Capital Management Advisors”), the filing investment adviser, is under common ownership and control and shares the same principal place of business as QAM, the relying adviser. Effectively, QAM and Quad Capital Management Advisors conduct a single advisory business. As of December 31, 2019, QAM had \$271,654,735 assets under management, all of which was managed on a discretionary basis. The assets under management calculation is derived as the sum of the gross long exposure plus the gross short exposure.

While this brochure generally describes the business of QAM, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, employees, members or any other person who provides investment advice on QAM’s behalf and is subject to the Firm’s supervision or control.

### Investment Management Services

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QAM manages client investment portfolios on a discretionary basis. QAM primarily allocates client assets among various affiliated investment managers (“Affiliated Third-Party Managers”) which in turn are allocated among individual equity securities, exchange-traded funds (“ETFs”) and options, in accordance with a client’s stated investment objectives.

QAM tailors its advisory services to meet the needs of its clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. QAM consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. In performing these services, QAM is not required to verify any information received from the client or from the client’s other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising QAM’s recommendations and/or services. Clients are advised to promptly notify QAM if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if QAM determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm’s management efforts.

### Use of Affiliated Third-Party Managers

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As mentioned above, QAM selects certain Affiliated Third-Party Managers to actively manage a portion of its clients’ assets.

QAM continues to provide services relative to the discretionary selection of the Affiliated Third-Party

Managers. On an ongoing basis, the Firm monitors the performance of those accounts being managed by Affiliated Third-Party Managers. QAM seeks to ensure the Affiliated Third-Party Managers' strategies and target allocations remain aligned with its clients' investment objectives and overall best interests.

### **Proprietary Trading**

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QAM also manages internal, proprietary portfolios in a similar manner to how client assets are managed. There are circumstances where proprietary allocations are deemed inappropriate and/or unsuitable for clients and in those circumstances will deviate from client allocations.

### **Manager Selection**

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Under certain circumstances, QAM allocates capital to independent investment managers which QAM believes, after conducting a lengthy and rigorous due diligence process, to be exceptional. QAM looks for independent thinkers with unparalleled research capabilities. QAM's underlying investment managers typically focus on specific markets, geographies or strategies. The manager selection process combines both qualitative and quantitative analysis in order to gather a clear understanding of a manager's strategy, style, team and process.

### **Management of Collective Investment Vehicle**

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QAM serves as the adviser to certain private funds, including the Quad Multi-Strategy Fund (the "Fund"). Interests in the Fund are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. Only those that are Qualified Purchasers, as defined under Section 2(a)(51) of the Investment Company Act, as amended, are eligible to subscribe to the Fund. Prior to subscribing, investors are provided offering memoranda, subscription documents and regulatory documents (together, "Offering Documents").

Because private investment vehicles are not registered investment companies, they are not subject to the same regulatory reporting or oversight of a registered entity.

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

### **Performance-Based Management Fees**

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QAM offers investment management services to Qualified Clients, as defined under Rule 205-3 of the Advisers Act, as amended, for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets) in accordance with the requirements set forth by all applicable laws, rules and regulations. Qualified Clients are those that have at least \$1,000,000 in assets invested with QAM or a net worth in excess of \$2,100,000.

For management of the Fund, QAM generally charges for each fiscal quarter equal to 0.5% (2% per annum) of the beginning net asset value of each capital account of an investor (before taking into account the estimated accrued incentive allocation, if any, for such fiscal quarter). The management fee will be calculated and paid in advance but will be amortized monthly over the fiscal quarter for which such management fee is paid. QAM will typically charge a performance fee of 20% which may be subject to a hurdle or highwater mark. Further details regarding compensation are disclosed in the Fund Offering Documents.

QAM offers investment management services for a fee based upon the performance of the assets under QAM's management, subject to a High Water Mark (defined below). Client will typically pay to QAM, on a quarterly basis, a performance fee equal to the negotiated Performance Percentage (defined below), multiplied by the clients' positive Performance Change (defined below). Performance Change means the difference between the balance of the assets as of the beginning of the quarter and the balance of the assets as of the end of the quarter, adjusting to exclude the effect of any non-transaction related expenses for any intra-quarter additions to or subtractions from the accounts. No performance fee will be charged in any quarter that the assets' ending value for the quarter covered does not exceed that of the highest previous quarter ending value for any quarter in which a performance fee was previously paid (the "High Water Mark"). This Performance Percentage will generally be assessed between 30% and 40%, depending upon the size and composition of a client's portfolio and the type of services rendered.

If assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the interim change in portfolio value.

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### **Fee Discretion**

QAM may, in its sole discretion, negotiate to charge variable fees based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities.

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### **Additional Fees and Expenses**

In addition to the advisory fees paid to QAM, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "Financial Institutions"). These additional charges may include securities brokerage commissions, execution fees, transaction fees, algorithm fees, custodial fees, margin costs, charges imposed directly by an ETF in a client's account, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. The Firm's brokerage practices are described at length in Item 12, below.

Clients may also bear the following expenses: travel associated with diligencing an investment; fees and expenses relating to software tools, programs or other technology; research and market data; administrative expenses (e.g. fund administrator); third-party legal expenses; third party accounting and valuation expenses; audit and tax preparation services; limited liability insurance for the General Partner, QAM, employees, and officers; entity level taxes; organizational expenses; corporate licensing; regulatory related expenses; indemnification expenses; and extraordinary expenses.

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### **Direct Fee Debit**

QAM will typically send clients an invoice for payment; however the client's advisory agreement and the separate agreement with any Financial Institutions may authorize QAM to debit the client's account for the amount of QAM's fee and to directly remit that management fee to QAM. Any Financial Institutions recommended by QAM have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to QAM. Your custodian does not verify the accuracy of our fee calculations so please review your statements carefully.

## **Account Additions and Withdrawals**

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Clients may make additions to and withdrawals from their account at any time, subject to QAM's right to terminate an account. If additions or withdrawals are made, allocations will be revised on a monthly or quarterly basis. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or declines to accept particular securities into a client's account. Clients may withdraw account assets on notice to QAM, subject to the usual and customary securities settlement procedures. However, the Firm generally designs its portfolios based on the amount of capital allocated; as such, the withdrawal of assets may impair the achievement of a client's investment objectives. QAM may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

Details regarding additions and subtractions to and from the Fund are disclosed in the Fund Offering Documents.

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

As discussed in response to Item 5, QAM provides advisory services to Qualified Clients for a performance-based fee. Although QAM believes that this fee arrangement best aligns the interests of the Firm and its clients, it raises conflicts of interest. The performance fee may be an incentive for the Firm to make or recommend investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where QAM charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee. Currently, QAM only assesses performance-based fees and QAM has procedures in place to ensure that any decisions are made in the best interest of clients regardless of the applicable fee structure.

## **Item 7. Types of Clients**

QAM offers services primarily to institutional clients including but not limited to managed accounts, investment advisers, investment managers, investment limited partnerships and other pooled investment vehicles, proprietary accounts, corporations and business entities.

### **Minimum Account Value**

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As a condition for starting and maintaining an investment management relationship, QAM generally imposes a minimum portfolio value of \$5,000,000. The Fund generally imposes a minimum investment of \$1,000,000. QAM may, in its sole discretion, accept clients and investors with smaller portfolios based upon certain criteria, including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities. QAM only accepts clients with less than the minimum portfolio size if the Firm determines the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance.

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

### Investment Strategies and Methods of Analysis

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QAM's investment strategies are aimed at achieving high risk-adjusted returns through the strategies described below. QAM anticipates utilizing multiple investment strategies and may pursue any or all of the investment strategies described herein simultaneously. QAM may also utilize investment strategies other than those described herein if QAM believes that doing so would be in the best interest of clients. QAM expects to initially utilize several investment strategies including, without limitation, the following:

#### *Long/Short Equity*

QAM's long/short equity strategy contemplates buying certain equity and equity-related Financial Instruments (as defined below) long and selling other equity and equity-related Financial Instruments short. QAM will attempt to purchase Financial Instruments that it believes are undervalued and sell short Financial Instruments that it believes to be overvalued.

#### *Event Driven*

QAM's event driven strategy utilizes a discretionary approach to identify investment opportunities created by significant corporate transactional events, such as mergers and acquisitions, spin-offs, asset sales, recapitalizations and share buybacks. QAM seeks to participate opportunistically in both short-term and longer-term investments while striving to maintain a balanced portfolio in terms of trade duration and portfolio diversification.

#### *Liquid Directional*

QAM's liquid directional strategy focuses on capitalizing on specific catalysts that affect the capital markets both from a micro and a macro level. Catalysts may include announcements and news events regarding individual companies as well as global economic themes.

#### *Commodities*

QAM's commodities strategy focuses on finding and exploiting opportunities in the global commodities markets. These opportunities may be expressed through trading associated with commodity calendar spreads as well as through directional investments and volatility plays.

The assets of clients are invested, directly or indirectly, on margin or otherwise, in interests commonly referred to as securities, including, without limitation, (i) U.S. and non-U.S. equity and equity-related securities (publicly-traded and privately offered, listed and unlisted), including, but not limited to, convertible debt securities, "new issues" and indices, (ii) U.S. and non-U.S. bonds and other fixed income securities and debt obligations (both sovereign and corporate debt; rated and unrated; investment grade and non-investment grade), government sponsored enterprise backed securities, mortgage-backed securities, asset-backed securities, collateralized bond obligations, collateralized debt obligations, private-label fixed or adjustable rate mortgage pass-through securities, fixed or adjustable rate collateralized mortgage obligations and other real estate mortgage investment conduits ("REMICs"), stripped mortgage backed securities ("SMBS") (rated and unrated including, but not limited to, interest-only and principal-only SMBS



and REMIC classes), money market obligations, distressed equity, and high yield securities, (iii) listed and over-the-counter commodities, financial futures (including, without limitation, single stock and index futures) and forward contracts (including, without limitation, contracts for future delivery with respect to securities, commodities, currencies and other financial instruments), repurchase and reverse repurchase agreements, swap contracts (including asset swaps), currencies, and warrants, as well as listed and over-the-counter-options and other derivative instruments (including credit derivatives) on all of the above securities and commodities, and (iv) such other instruments, rights, and interests as determined by the Investment Manager (all such securities and financial instruments referred to in (i), (ii), (iii) and (iv), "Financial Instruments").

## **Risk of Loss**

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### *Market Risks*

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of QAM's recommendations and/or investment decisions may depend to a great extent upon correctly assessing the future course of price movements of stocks, options and other asset classes. There can be no assurance that QAM will be able to predict those price movements accurately or capitalize on any such assumptions.

### *Day Trading*

Some of QAM trading strategies may be viewed as pattern day trading for margin purposes. Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. Investing involves the risk of loss including the loss of principal. Clients should not fund day-trading activities with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or home ownership, or funds required to meet living expenses. Day trading involves aggressive trading, and generally incurs commissions on each trade will could significantly reduce earnings. Day trading with levered funds can result in losing in excess of principal. Short selling also may lead to extraordinary losses, because clients may have to purchase a stock at a very high price in order to cover a short position.

### *Risk of Private Investment Vehicles*

Because private investment vehicles are not registered investment companies, they are not subject to the same regulatory reporting or oversight of a registered entity.

### *Leverage*

QAM has the authority to borrow, trade on margin, utilize derivatives and otherwise obtain leverage from brokers, banks and others on a secured or unsecured basis. QAM may utilize leverage to the extent it deems appropriate, and the amount of leverage utilized by QAM may be significant. While leverage presents opportunities for increasing total return, it has also the effect of magnifying the volatility of changes in the value of the investments of the assets. Accordingly, the use of leverage may result in substantial losses which may be greater than if the investments were not leveraged or leveraged to a lesser extent.

The overall leverage of the accounts will depend on the Investment Strategies employed by the QAM and specific market opportunities. QAM has no pre-determined limitations on the amount of leverage that may be employed in connection with the investment program. In order to manage leverage, QAM has Firm and account level risk checks in place, in addition to adhering to the risk parameters of the executing broker.

QAM's use of leverage may be subject to regulatory restrictions.

### *ETFs*

ETFs are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying Financial Instruments they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying Financial Instruments they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of expenses (e.g., Management Fees and operating expenses), clients may also indirectly bear similar expenses of an ETF.

### *Options*

Options allow investors to buy or sell a security at a contracted “strike” price at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (i.e., limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Illiquid Financial Instruments*

Certain Financial Instruments may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such Financial Instruments. Valuation of such Financial Instruments may be difficult or uncertain because there may be limited information available about the issuers of such Financial Instruments. The market prices, if any, for such Financial Instruments tend to be volatile and may not be readily ascertainable, and QAM may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Financial Instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Financial Instruments eligible for trading on national securities exchanges or in the over-the-counter markets. QAM may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, QAM may be required to hold such Financial Instruments despite adverse price movements.

### *Initial Public Offerings*

Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for

the value of the Fund's Interests.

### *Commodities*

The values of commodities which underlie the commodity futures contracts and other types of financial instruments are generally affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. QAM has no control over the factors that affect the price of commodities. Accordingly, investments could change substantially and in a rapid and unpredictable manner.

### *Convertible Securities*

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security is called for redemption, QAM will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on QAM's ability to achieve its investment objective.

### *American Depositary Receipts ("ADRs")*

ADRs are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts ("GDRs") are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company's publicly traded securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

### *Non-U.S. Exchanges / Non-U.S. Investments*

QAM may trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S.

exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. Financial Instruments may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees. Investing in the Financial Instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in Financial Instruments of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict QAM's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, QAM may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce QAM's rights in such markets. For example, Financial Instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Master Fund under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

#### *Management through Similarly Managed "Model" Accounts*

QAM manages certain accounts through the use of similarly managed "model" portfolios, whereby the Firm allocates all or a portion of its clients' assets among various securities on a discretionary basis using one or more of its proprietary investment strategies. In managing assets through the use of models, the Firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after tax gains. While the Firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions effected pursuant to a model investment strategy are usually done without regard to a client's individual tax ramifications. Clients should contact the Firm if they experience a change in their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

#### *Agency Cross and Principal Transactions*

SEC Rule 206(3)-2 provides that a registered investment adviser identify and explain the potential conflicts of interest arising from its participation in an agency or principal transaction. These transactions provide an opportunity for the adviser to engage in self-dealing or abuses such as price manipulation and or "dumping" unwanted securities. QAM will only engage in agency cross or principal transactions in order to rebalance portfolios. QAM will not assess any fees to the client and has procedures in place aimed at mitigating any potential conflicts of interest.

## **Item 9. Disciplinary Information**

In 2015, John Guarino and Guerino Ciampi entered into a settlement with PHLX regarding a failure to supervise in relation to Rule 105 of Regulation M of the Securities Exchange Act of 1934 violations from December 2009 to August 2011. The settlement stated that Mr. Guarino and Mr. Ciampi failed to ensure that the firm's Chief Executive Officer ("CEO") and the firm's Chief Compliance Officer ("CCO") provided for appropriate controls in the performance of their designated/delegated supervisory functions. The settlement stated specifically that the CEO had overall authority and responsibility for supervision and control at the Firm and compliance with securities laws and regulations and the CCO was delegated front-line supervisory responsibilities at the Firm by the CEO and retained those delegated front-line responsibilities. Without admitting or denying any allegations, Mr. Guarino and Mr. Ciampi were censured and agreed to a 30-day suspension from supervising a PHLX member firm. During that time, both were free to conduct securities business at any broker-dealer (including a PHLX one). Neither Mr. Guarino nor Mr. Ciampi were fined. In addition and without admitting or denying any allegations, a formerly affiliated broker dealer was censured and agreed to pay a fine of \$2.5 million.

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

This Item requires investment advisers to disclose certain financial industry activities and affiliations. Clients should understand that: (i) the relationships among the entities in the Quad Group are complex and dynamic and (ii) as the Quad Group's business changes over time, the Quad Group may be subject to new or additional conflicts of interest. There can be no assurance that this brochure anticipates every possible future conflict of interest that may arise.

### **Related Investment Adviser**

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QAM is under common control with its affiliated SEC registered investment adviser, Quad Capital Management Advisors. As QAM and Quad Capital Management Advisors are under common control and collectively conduct a single advisory business, QAM and Quad Capital Management Advisors have undertaken a single registration (i.e., register on a single Form ADV) pursuant to the position expressed in the American Bar Association, Business Law Section, SEC No-Action Letter (Jan. 18, 2012). Certain Supervised Persons of QAM also serve in the same or similar capacity for Quad Capital Management Advisors.

### **Related Persons**

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The entities listed below are under common control with QAM and/or serve as the general partner to one or more of the Funds:

- Quad Fund Structures, LLC
- Quad Fund Advisor, G.P., LLC

### **Investment Related Ventures**

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Quad Accelerator, LLC, ("Quad Accelerator") an affiliated hedge fund incubator, offers capital allocations as well as access to QAM real-time risk management and business development resources. The emerging hedge fund manager maintains its organizational independence and is not privy to QAM non-public, client trading information. QAM Supervised Persons may choose to personally invest, directly and/or indirectly,

in Quad Accelerator emerging managers. Supervised Persons do not recommend clients invest in Quad Accelerator emerging managers.

## **The Quad Group**

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The Quad Group has streamlined its operational and back office support; as a result, affiliated entities may share certain professional and back office staff as well as access to service providers. In so doing, the QAM Group entities have increased access to trading technology, operations, reporting, custody, brokerage, investments, finance, accounting, compliance and other related services. The Firm may also engage and/or recommend QAM affiliates to clients for certain outsourced investment services. While QAM believes this architecture best serves the interests of its advisory clients, this relationship may present certain conflicts of interest. In light of the foregoing, QAM seeks at all times to ensure that any material conflicts are addressed on a fully-disclosed basis and handled in a manner that is aligned with its clients' best interests.

## **Outside Activities**

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QAM's principals, members, and affiliates may co-invest in the Fund. Additionally, these parties may own an equity interest in, serve as officers, directors, consultants or in other capacities for, or have other relationships or transactions with the Fund. Such relationships may create potential conflicts of interest. To mitigate these conflicts, QAM has adopted policies and procedures aimed at addressing these conflicts.

## **Item 11. Code of Ethics**

QAM and Quad Capital Management Advisors have adopted a single code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. QAM's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of QAM's personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, the Firm's Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed; or
- a decision has been made not to engage in the transaction for the client.



These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds. Clients and prospective clients may contact QAM to request a copy of its Code of Ethics.

## **Item 12. Brokerage Practices**

### **Recommendation of Broker/Dealers for Client Transactions**

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QAM does not typically recommend clients utilize the custody or clearing services of any specific broker-dealer ("Financial Institution"); however, QAM has discretion over which broker-dealer is utilized as the executing broker.

Factors which QAM considers in choosing to execute through broker-dealers and/or in recommending broker-dealers include their respective financial strength, reputation, execution, pricing, availability of securities, research and service. The commissions and/or transaction fees charged by executing brokers may be higher or lower than those charged by other Financial Institutions.

The commissions, ECN fees, algorithm fees and transaction charges (together, "Fees") paid by QAM's clients to executing brokers comply with the Firm's duty to obtain "best execution." Clients may pay Fees that are higher than another qualified Financial Institution might charge to effect the same transaction where QAM determines that the Fees are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the availability of securities, the value of research provided, execution capability, commission rates and responsiveness and knowledge of market structure and industry changes. QAM seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

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

QAM periodically and systematically reviews its policies and procedures regarding in light of its duty to obtain best execution.

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

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QAM, pursuant to the relationship Quad Capital Management Advisors maintains with Bank of America Merrill Lynch ("BAML") may receive without cost from BAML computer software and related systems

support, which allows QAM to better monitor accounts maintained at BAML. QAM may receive the software and related support without cost. The software and support is not provided in connection with securities transactions of clients (i.e., not “soft dollars”). The software and related systems support may benefit QAM, but not its clients directly. Clients should be aware, however, that QAM’s receipt of economic benefits from a broker/dealer creates a conflict of interest since these benefits may influence the Firm’s choice of broker/dealer over another that does not furnish similar software, systems support or services.

Specifically, QAM may receive the following benefits from BAML:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services its institutional traders;
- Access to TT terminals;
- Access to T+1 activity and P&L statements;
- Access to trade reconciliation and bookkeeping tools;
- Access to corporate action information;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and
- Access to an electronic communication network for client order entry and account information.

### **Directed Brokerage**

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The client may and typically will direct QAM to use a particular Financial Institution to clear some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions. As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, QAM may decline a client’s request to direct brokerage if, in the Firm’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

### **Pari Passu Trading**

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Transactions for each client generally will be effected on a Pari Passu basis, unless QAM decides an investment is otherwise unsuitable for clients or unless the prime broker does not permit the transaction. Under this procedure, transactions will generally be aggregated (as described below), averaged as to price and allocated among QAM’s clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which QAM’s Supervised Persons may invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when



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

### *Trade Aggregation*

Transactions for each client generally will be effected in an aggregated fashion, unless QAM decides a transaction is otherwise inappropriate or unsuitable for a client. QAM may (but is not obligated to) combine or "batch" orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Firm's clients; differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently.

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

### **Account Reviews**

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QAM monitors client portfolios on a continuous basis while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by the Firm's Investment Committee, Chief Risk Officer and Principals. Market exposure, risk, and adherence to QAM risk rules and guidelines are monitored daily on a real-time basis. All investment advisory clients are encouraged to discuss their needs, goals and objectives with QAM and to keep the Firm informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and quarterly to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **Reports**

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied or primed. Clients may also receive written or electronic reports from QAM and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian or prime broker with any documents or reports they receive from QAM or an outside service provider.

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

## **Client Referrals**

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The Firm does not provide compensation to any third-party solicitors for client referrals.

## **Item 15. Custody**

### **Fee Debit**

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

### **Private Fund**

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QAM acts as an investment adviser to the Fund and due to a QAM affiliate's role as the general partner and managing member of the Fund, QAM is deemed to have custody of client assets. As such, QAM requires an annual audit of the Fund by an independent public accountant registered with, and subject to regulatory inspection by, the Public Company Accounting Oversight Board. QAM distributes the audited financials to each investor within 120 days of the Fund's fiscal year-end. QAM does not have direct access to client funds. The Fund is administered by a third-party administrator and maintained with an independent qualified custodian.

## **Item 16. Investment Discretion**

QAM will be provided with the authority to exercise discretion on behalf of clients. QAM is considered to exercise investment discretion over a client's account if it can effect and/or direct transactions in client accounts without first seeking a client's consent. QAM is given this authority through a power-of-attorney included in the agreement between QAM and the client. Clients may request a limitation on this authority. QAM takes discretion over the following activities:

- The securities to be bought or sold;
- The amount of securities to be bought or sold;
- The Affiliated Third-Party Managers to be hired or terminated;
- The executing broker; and
- When transactions are made.

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

### **Declination of Proxy Voting Authority**

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QAM does not accept the authority to vote a client's securities (i.e., proxies) on their behalf. Clients receive proxies directly from the Financial Institutions where their assets are custodied and may contact the Firm at the contact information on the cover of this brochure with questions about any such issuersolicitations.

## **Item 18. Financial Information**

QAM is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.