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# WELTON INVESTMENT PARTNERS LLC

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Eastwood Building  
San Carlos between 5<sup>th</sup> and 6<sup>th</sup>  
P.O. Box 6147  
Carmel, California 93921-6147  
(831) 626-5190

[www.welton.com](http://www.welton.com)

March 30, 2020

**This Brochure provides information about the qualifications and business practices of Welton Investment Partners LLC (“Welton”). If you have any questions about the contents of this Brochure, please contact us at (831) 626-5190. 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.**

**Welton is an investment adviser registered with the SEC. Registration with the SEC does not imply any level of skill or training.**

**Additional information about Welton also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **ITEM 2 – MATERIAL CHANGES**

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This Brochure is an annual updating amendment. Since the last annual updating amendment dated March 31, 2019 the following material changes have been made to this Brochure.

Item 8 – Expanded descriptions of material risks for the Trading Programs to include those that may arise from the discontinuation of LIBOR, Brexit and COVID-19.

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## ITEM 4 – ADVISORY BUSINESS

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Welton is a Delaware limited liability company that was formed on June 12, 2014.

Welton is registered with the Commodity Futures Trading Commission (“**CFTC**”) as a commodity pool operator and a commodity trading adviser and is a member in good standing of the National Futures Association in those capacities.

Welton Investment Corporation, a Delaware corporation that was formed on May 19, 1997, owns in excess of 25% of Welton. Welton Investment Corporation is owned by The Welton Family Trust.

### **Futures Trading Programs**

Welton provides discretionary investment management services regarding the trading of commodity futures contracts and over the counter (“**OTC**”) foreign exchange products through managed accounts (collectively, “**Separate Futures Account Investors**”) and private investment funds pursuant to Welton’s proprietary trading systems (the “**Futures Trading Programs**”).

The Futures Trading Programs focus on the trading of futures and forward contracts through managed futures/global macro trading strategies that seek to invest across a diversified group of global futures markets and OTC foreign exchanges spanning four market sectors (traditional commodities (e.g., agriculture, energy, and metals), currencies, equity indices, and interest rates).

With respect to certain private investment funds described above, Welton also provides and/or delegates and oversees discretionary investment management services regarding cash securities portfolios and fixed income portfolios on behalf of certain series or classes of such private investment funds (collectively, “**Advisory Futures Fund Clients**”). The cash securities portfolios for which Welton provides discretionary investment management services consist of investments in high-quality, short-term debt securities and money market instruments for temporary defensive purposes. These short-term debt securities and money market instruments generally include, among other things, shares of other mutual funds, commercial paper, certificates of deposit, bankers’ acceptances, U.S. Government securities and repurchase agreements.

Welton also may allocate Advisory Futures Fund Client assets in its discretion to other investment managers. Currently, Welton has allocated a portion of its Advisory Futures Fund Client assets to Wellington Management Company LLP (“**Wellington**”) to manage a fixed income portfolio on a discretionary basis. Welton oversees Wellington’s discretionary management of the fixed income portfolio. The fixed income portfolio managed by Wellington consists of investments in highly liquid, investment grade securities, including (without limitation): (i) obligations issued or guaranteed by the United States Government, its agencies or instrumentalities, (ii) securities issued or guaranteed by foreign governments, their political subdivisions or agencies or instrumentalities, (iii) bonds, notes, or similar debt obligations issued by U.S. or foreign corporations or special-purpose entities backed by corporate debt obligations, (iv) U.S. asset-backed securities, (v) U.S. residential mortgage-backed securities, (vi) U.S. commercial mortgage-backed securities, (vii) Exchange Traded Funds, (viii) Exchange Traded Notes, and (ix) preferred, convertible and hybrid

securities. In addition, the fixed income portfolio may include exchange-traded and over-the-counter derivative instruments, including interest rate, credit and index futures; interest rate, total rate of return and credit default swaps; bond and swap options; to-be-announced securities, bonds for forward settlement, forward rate agreements and other derivative instruments. In addition, Wellington may invest the assets allocated to the fixed income portfolio in high-quality, short-term debt securities and money market instruments if instructed to do so by Welton.

Welton also provides investment management services to other private investment funds managed by Welton pursuant to the Futures Trading Programs that do not allocate assets to a cash securities or fixed income portfolio (collectively, **“Other Futures Fund Clients”**). For purposes of the Investment Advisers Act of 1940, as amended (the **“Advisers Act”**), “investment advisory clients” does not include Other Futures Fund Clients and Separate Futures Account Investors (collectively, **“Futures Clients”**). Therefore, Futures Clients are generally not discussed in this Brochure except in the context of conflicts of interest that may arise between Welton’s Advisory Futures Fund Clients and Futures Clients.

### **Equities Trading Program**

Welton also provides investment management services regarding the trading of global equity markets pursuant to Welton’s proprietary trading systems (the **“Equities Trading Program”**). Currently, the Equities Trading Program is provided to private investment funds (the **“Equities Fund Clients”**) and is also available to managed accounts (the **“Equities Managed Accounts”**) and together with Equities Fund Clients, **“Equities Clients”**). The Equities Trading Program focuses on the trading of publicly held equity securities of liquid issuers in North America, Europe, South Africa, Asia and Australia using a systematic and quantitative approach. Welton’s Equities Trading Program seeks to achieve its investment objectives by entering into total return equity swaps instead of by taking physical positions in the underlying equity securities in which it is investing.

### **Multistrategy Trading Program**

Welton also provides multistrategy investment management services pursuant to Welton’s proprietary trading systems (the **“Multistrategy Trading Program”** and together with the Equities Trading Program and the Futures Trading Programs, the **“Trading Programs”**). Currently, the Multistrategy Trading Program is provided to private investment funds (the **“Multistrategy Fund Clients”** and together with Advisory Futures Fund Clients and Equities Fund Clients, the **“Funds”**) and is also available to managed accounts (the **“Multistrategy Managed Accounts”** and together with Multistrategy Fund Clients, **“Multistrategy Clients”** and Multistrategy Clients together with Equities Clients and Advisory Futures Fund Clients, **“Clients”**). The Multistrategy Trading Program combines into a single program a diverse and growing variety of underlying investment methods and technologies from Welton’s MultiQuant<sup>SM</sup> strategy library that include a redundant variety of long/short, short term, trend, momentum, statistical, spread, cross sectional, relative value, and non-trend quantitative methods. These investment strategies are applied to publicly traded equity securities of issuers principally in Europe, North America (i.e., U.S. and Canada), Asia, Australia and South Africa and to global futures markets and OTC foreign exchanges spanning all four major market sectors (traditional commodities (i.e., agriculture, energy, and metals), currencies, equity indices, and interest

rates). In the future, the Multistrategy Programs are purposefully designed, and intends to continue, to methodically incorporate additional quantitative and systematic strategies and instruments, including without limitation strategies involving fixed income instruments, options, rights and warrants.

Additional information about the Funds managed by Welton, including information about investment strategies, investment policies and restrictions, fees, risks and other material information, is contained in each Fund's respective offering documents, including any exhibits thereto (collectively, "**Memorandum**").

As of December 31, 2018, Welton managed approximately \$268,570,000 of regulatory assets under management on a discretionary basis in Client accounts.

Welton, across all trading programs, manages approximately \$800 million, through managed accounts and private investments funds.

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## **ITEM 5 – FEES AND COMPENSATION**

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Welton does not have a standardized fee schedule with respect to its discretionary investment management services.

### **Advisory Futures Fund Clients**

For Advisory Futures Fund Clients, Welton offers two fee schedules, one of which includes both management and performance-based compensation. The other does not charge a management fee; however, Welton receives an off-settable fee payment that is applied to reduce performance-based compensation as described below.

Under the fee schedule that includes both management and performance-based compensation, Welton receives management fees generally of 1.5% per annum based on the net asset value of an Advisory Futures Fund Client's account; provided, however, that in each calendar year, the management fees owed to Welton by an Advisory Futures Fund Client are reduced by 50% and, in turn, paid directly to Welton Global Funds Management Corporation (which acts as the commodity pool operator of the Advisory Futures Fund Clients (See Item 10)) as compensation for its commodity pool operator services (the "**CPO Fee**") until such time as the aggregate CPO Fee paid to Welton Global Funds Management Corporation in that calendar year equals \$1,000,000. Welton receives performance-based compensation generally of up to 20% of the net realized and unrealized trading gains in an Advisory Futures Fund Client's account above a "high water mark" (i.e., the previous highest net asset value at which performance-based compensation was paid), net of fees and expenses. Management fees generally are charged monthly in arrears and performance-based compensation is generally allocated quarterly in arrears. Performance-based compensation is in conformity with Rule 205-3 under the Advisers Act, as applicable.

Under the fee schedule that does not charge a management fee, Welton receives quarterly in arrears an off-settable fee payment generally equal to 1% per annum based on the net asset value of an

Advisory Futures Fund Client's account. Welton receives quarterly performance-based compensation in arrears generally of up to 30% of the net realized and unrealized trading gains in an Advisory Futures Fund Client's account above a "high water mark" (i.e., the previous highest net asset value at which performance-based compensation was paid), net of fees and expenses. The off-settable fee payment for each quarter is applied to reduce the performance-based compensation for that quarter on a dollar-for-dollar basis, but not below zero. If the off-settable fee payments paid during a calendar quarter exceeds the performance-based compensation for that quarter, any excess is carried forward and credited against future performance-based compensation. Performance-based compensation is in conformity with Rule 205-3 under the Advisers Act, as applicable.

The amount of fees and performance-based compensation received from underlying investors in the Advisory Futures Fund Clients are sometimes negotiable depending upon, among other factors, the relationship between Welton and an underlying investor in the Advisory Futures Fund Client, the amount of investment, timing and length of time in which the investment has been pledged. Underlying investors in the Advisory Futures Fund Clients that are also affiliates or employees of Welton are generally not charged a management fee or any performance-based compensation.

In addition to the foregoing fees, Advisory Futures Fund Clients are subject to a range of certain additional investment management fees, generally not more than 30 basis points, with respect to (i) fixed income portfolio sub-advisory fees paid to Wellington related to the assets held in the fixed income portfolio and (ii) management and fund charges paid to managers of those money market accounts in which Welton invests on behalf of its Advisory Futures Fund Clients. Investors in Advisory Futures Fund Clients should, therefore, be aware that all such operational fees and expenses are separate and distinct from the fees paid to Welton, resulting in an additional layer of fees and expenses on such investments.

Fees are generally deducted from Advisory Futures Fund Client assets and performance compensation is reallocated from shares and interests linked to the segregated accounts in which the investors in the Advisory Futures Fund Client are invested to a separate class of non-voting, non-participating and redeemable shares owned exclusively by Welton. Such fees and compensation are not billed separately. The specific manner in which fees are charged and performance allocations are made by Welton is set forth in each Advisory Futures Fund Client's written agreement with Welton and/or its governing Memorandum.

Upon termination of any account, for any partial period, fees charged to an Advisory Futures Fund Client are prorated. Redemptions and withdrawals by investors in an Advisory Futures Fund Client are governed by such Advisory Futures Fund Client's Memorandum.

### **Equities Clients**

With respect to Equities Clients, Welton offers two fee schedules, one of which includes both management and performance-based compensation. The other does not charge a management fee; however, Welton receives an off-settable fee payment that is applied to reduce performance-based compensation as described below.

Under the fee schedule that includes both management and performance-based compensation, Welton receives management fees generally of up to 1.75% per annum based on the net asset value

of an Equities Client's account. Welton receives performance-based compensation generally of up to 20% of the net realized and unrealized trading gains in an Equities Client's account above a "high water mark" (i.e., the previous highest net asset value at which performance-based compensation was paid), net of fees and expenses. Management fees generally are charged monthly in arrears and performance-based compensation generally are allocated quarterly in arrears. Performance-based compensation is in conformity with Rule 205-3 under the Advisers Act, as applicable.

Under the fee schedule that does not charge a management fee, Welton receives quarterly in arrears an off-settable fee payment generally equal to 1.25% per annum based on the net asset value of an Equity Client's account. Welton receives quarterly performance-based compensation in arrears generally of up to 30% of the net realized and unrealized trading gains in an Equity Client's account above a "high water mark" (i.e., the previous highest net asset value at which performance-based compensation was paid), net of fees and expenses. The off-settable fee payment for each quarter is applied to reduce the performance-based compensation for that quarter on a dollar-for-dollar basis, but not below zero. If the off-settable fee payments paid during a calendar quarter exceeds the performance-based compensation for that quarter, any excess is carried forward and credited against future performance-based compensation. Performance-based compensation is in conformity with Rule 205-3 under the Advisers Act, as applicable.

For Equities Fund Clients sponsored by Welton, fees are generally deducted from such Equities Fund Clients assets and performance-based compensation is reallocated from shares and interests owned by investors in the Equities Fund Clients to a separate class of non-voting, non-participating and redeemable shares owned exclusively by Welton. Such fees and compensation are not billed separately. For Equities Fund Clients not sponsored by Welton, fees are generally billed separately. The specific manner in which fees are charged by Welton is set forth in each Equities Fund Client's written agreement with Welton or its governing Memorandum.

The amount of fees and performance-based compensation received from underlying investors in the Equities Fund Clients are sometimes negotiable depending upon, among other factors, the relationship between Welton and an underlying investor in the Equities Fund Client, the amount of investment, timing and length of time in which the investment has been pledged. Underlying investors in the Equities Fund Clients that are also affiliates or employees of Welton are generally not charged a management fee or any performance-based compensation.

Upon termination of any account, for any partial period, fees charged to an Equities Fund Client are prorated. Redemptions and withdrawal by investors in an Equities Fund Client are governed by such Equities Fund Client's Memorandum.

Welton's fees are generally negotiable with respect to Equities Managed Accounts. Equities Managed Accounts pay their fees in arrears. Welton fees charged to any Equities Managed Accounts for any partial period are prorated. Welton bills Equities Managed Accounts for its fees and does not deduct such fees from the Equities Managed Account's accounts.

### **Multistrategy Clients**

With respect to Multistrategy Clients, Welton offers two fee schedules that do not charge a management fee. However, under both fee schedules Welton receives in arrears an off-settable fee



payment generally equal to 1% per annum based on the net asset value of a Multistrategy Fund Client's account. The off-settable fee payment for each period is applied to reduce the performance-based compensation for that period on a dollar-for-dollar basis, but not below zero. If the off-settable fee payment for the period exceeds the performance-based compensation for that period, the excess is carried forward and credited against future performance-based compensation.

Pursuant to the Welton Complete Alignment Model®, Multistrategy Fund Clients pay performance-based compensation in two separate forms, as follows: (a) 25% of monthly net trading profits (both realized and unrealized) achieved by investors on a high water mark basis in excess of a specified hurdle amount (net of fees and expenses) (the "Performance Charge"); and (b) an additional 25% of monthly net trading profits (both realized and unrealized) achieved by investors on a high water mark basis in excess of the same specified hurdle amount (net of fees and expenses) (the "Reserve Charge"). The difference between the Performance Charge and the Reserve Charge is that once the Performance Charge is reallocated from shares and interests owned by investors to a separate class of non-voting, non-participating and redeemable shares owned exclusively by Welton, the Performance Charge is non-refundable. In contrast, the Reserve Charge is not reallocated to a separate class of shares owned by Welton, but rather is held in a separate class of non-redeemable shares that is owned by, and taxable to, investors and is subject to repayment to investors upon the occurrence of certain specified loss contingencies and/or the failure to meet a specified target return. On a monthly basis, if the Reserve is less than 10% of the underlying investor balance in Multistrategy Fund Clients an amount generally equal to 0.83% is charged to the Reserve and reallocated from shares and interests held in Reserve by investors in the Multistrategy Fund Clients to a separate class of non-voting, non-participating and redeemable shares owned exclusively by Welton. If the Reserve is greater than 10% of the underlying investor balance in Multistrategy Fund Clients an amount generally equal to 1.67% is charged to the Reserve and reallocated from shares and interests held in Reserve by investors in the Multistrategy Fund Clients to a separate class of non-voting, non-participating and redeemable shares owned exclusively by Welton. Such fees and compensation are not billed separately. Welton is only entitled to receive any additional Reserve Charge amounts in whole or in part upon the redemption by investors from a Multistrategy Fund Client. For investors in Multistrategy Fund Clients, the off-settable fee payment and performance-based compensation is generally paid or allocated monthly in arrears and is not separately billed.

Pursuant to the second fee schedule, Multistrategy Fund Clients pay performance-based compensation quarterly in arrears generally of up to 25% of the net realized and unrealized trading gains in an Multistrategy Fund Client's account above a "high water mark" (i.e., the previous highest net asset value at which performance-based compensation was paid), net of fees and expenses. For investors in Multistrategy Fund Clients, the off-settable fee payment and performance-based compensation is generally paid or allocated quarterly in arrears and is not separately billed.

Multistrategy Managed Account Clients are subject to the same off-settable fee payment and performance compensation described above. Additional description regarding such compensation is found in the relevant investment management agreement or Memorandum for the Multistrategy Client.

Under both fee schedules, performance-based compensation is in conformity with Rule 205-3 under the Advisers Act, as applicable. The amount of performance-based compensation Welton

receives from Multistrategy Managed Accounts and underlying investors in Multistrategy Fund Clients is sometimes negotiable depending upon, among other factors, the relationship between Welton and such individuals, the amount of investment, timing and length of time in which the investment has been pledged.

Redemptions and withdrawals by investors in a Multistrategy Fund Client are governed by the Multistrategy Fund Client's Memorandum and Multistrategy Managed Account terminations and withdrawals are governed by the investment management agreement with the Multistrategy Managed Account Client.

### **Other Fees and Expenses**

Welton's Client fees do not include brokerage and transaction fees, costs and charges, and other costs and expenses related to the trading and maintenance of Client accounts, including, but not limited to administrative fees and costs, directors' fees, commissions, custodial fees and taxes. In addition, Welton invests a portion of Client assets in funds that hold money market type instruments. The managers to such funds receive management fees from the funds' investors including Clients invested in such funds. All of the foregoing fees, costs and charges are borne by the Clients. Such fees, costs and charges are exclusive of and in addition to Welton's fees, and Welton does not receive any portion of these fees, costs and charges.

Generally, Client expenses are billed directly to the applicable Client; however, if more than one Client incurs a shared expense, Welton allocates such shared expense among the applicable Clients (i) in proportion to the net asset value of each applicable Client; (ii) in proportion to the size of the investment made by each Client to which the expense relates; or (iii) in such other manner as Welton considers fair and reasonable.

Item 12 describes the factors that Welton considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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As described in in Item 5 above, Welton's charges performance-based compensation to Advisory Futures Fund Clients, Equities Fund Clients and Multistrategy Clients. Fees charged with respect to Welton's Futures Clients and Equities Managed Accounts may be similar or different to those charged to its Advisory Futures Fund Clients, Equities Fund Clients and Multistrategy Clients.

Performance-based compensation arrangements create an incentive for Welton to recommend investments that are riskier or more speculative than those which would be recommended under a different compensation arrangement. Managing accounts that are charged performance-based compensation and accounts that are not, and/or accounts that are charged different levels of management fees or performance-based compensation, give rise to a conflict of interest, as Welton has an incentive to favor the accounts of clients for which it receives performance-based compensation or higher management fees over accounts for which it receives no performance-based compensation or lower amounts of asset-based fees and/or performance-based compensation. In addition, Welton has an incentive to favor accounts for which performance-

based compensation is likely to be paid sooner than for accounts for which such compensation is likely to be paid later.

Welton has established allocation procedures that seek to treat all clients fairly and equally on an overall basis, and to prevent this potential conflict from materially influencing the allocation of investment opportunities among clients. Please see Item 12 for more information.

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## **ITEM 7 – TYPES OF CLIENTS**

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Welton provides investment advice to private investment fund clients and through managed accounts for certain U.S. and non-U.S. investors. Investors may include institutional investors, multi-manager funds, family offices and high net worth qualified individual investors. Private investment fund clients have a minimum investment requirement for investors of \$1 million, which may be waived or modified. For Equities Managed Accounts, a standard minimum account size of \$50 million generally is required.

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## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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### **Futures Trading Programs**

Welton's Futures Trading Programs seek to follow an investment process using quantitative and statistical modeling in futures and forward contracts. Welton seeks to create alpha generating tendencies toward lower exposures in overextended trends and in non-directional markets, and toward higher exposures in either rapidly moving or longer sustained trending markets.

Welton also provides to its Advisory Futures Fund Clients discretionary investment management services and/or delegates and oversees such services regarding cash securities and fixed income portfolios. See Item 4 for a description of the investments in the cash securities and fixed income portfolios.

Advisory Futures Fund Clients' cash securities and fixed income portfolios include a limited amount of securities and therefore do not reflect a fully diversified portfolio. Investments may be made in cash equivalents and other short-term debt obligations that are subject to interest rate and market risks.

In addition, Welton invests or oversees the investment of Advisory Futures Fund Client assets directly in short-term investments which include funds that hold money market type instruments. Money market instruments generally are considered to be low risk, highly liquid short-term securities. Nonetheless, these instruments are subject to risk, as described below.

### **Equities Trading Program**

Welton's Equities Trading Program seeks to follow a rigorous and transparent investment process employing a systematic and quantitative approach to investing in the global equity markets. The

program strives to identify and profit from market inefficiencies while maximizing portfolio diversification and adapting to changing market conditions.

By employing a diverse variety of underlying long/short strategies and proprietary risk management and portfolio optimization systems, the Equities Trading Program seeks to reduce exposure to market risk. However, the Equities Trading Program is still subject to numerous risks that are summarized below.

Welton currently seeks to achieve the program's investment objectives by entering into total return equity swaps on equity securities, baskets of equity securities, and/or indices based upon equity securities instead of by taking physical positions in relevant securities and instruments. The use of derivatives for this purpose exposes investors in the Equities Trading Program to different risks than they would face if Welton implemented the Equities Trading Program through direct investment in securities (as described below), but is designed to enable investors to obtain reduced costs and increased efficiency as compared with direct investments in securities.

In addition, under the Equities Trading Program, Welton invests Equities Clients' assets directly in short-term investments which include funds that hold money market type instruments. Money market instruments generally are considered to be low risk, highly liquid short-term securities. Nonetheless, these instruments are subject to risk, as described below.

### **Multistrategy Trading Program**

Welton uses its Multistrategy Trading Program to invest Multistrategy Clients' assets using a dominantly systematic and quantitative approach. The Multistrategy Trading Program strives to identify and profit from market and intermarket inefficiencies, tendencies, and recurrent behaviors while maximizing portfolio diversification and adapting to changing market conditions. Currently, the Multistrategy Trading Program combines into a single program a diverse and growing variety of underlying investment methods and technologies from Welton's MultiQuant<sup>SM</sup> strategy library that include a redundant variety of long/short, short term, trend, momentum, statistical, spread, cross sectional, relative value, and non-trend quantitative methods. These investment strategies are applied to publicly traded equity securities of issuers principally in Europe, North America (i.e., U.S. and Canada), Asia, Australia and South Africa and to global futures markets and OTC foreign exchanges spanning all four major market sectors (traditional commodities (i.e., agriculture, energy, and metals), currencies, equity indices, and interest rates).

In the future, the Multistrategy Trading Program is purposefully designed, and intends to continue, to methodically incorporate additional quantitative and systematic strategies and instruments, including without limitation strategies involving fixed income instruments, options, rights and warrants. The Multistrategy Trading Program does not apply any fixed allocation of assets among strategies and Multistrategy Client assets are allocated in such proportions as Welton may determine in its sole discretion from time to time.

## **RISKS**

Welton's investment advisory services involve the risk of loss of principal that Clients should be prepared to bear. A brief explanation of the material risks associated with Welton's principal investment strategies and methods of analysis follows. The below described risks does not purport to be a complete explanation of the risks associated with the Trading Programs. Additional risk factors are set forth in the Memorandum of each Fund. In addition, Advisory Futures Fund Clients should carefully read Wellington's Form ADV Brochure for a description of the risks applicable to the fixed income portfolios, a summary of which is set out below.

### **General Risks**

**General Investment Risk.** There can be no assurances that any of Welton's Trading Programs will achieve their investment objectives or that the strategies pursued and methods utilized by Welton will be successful under all or any market conditions. Past performance is no guarantee of future performance.

**Epidemics and Pandemics Present Additional Risks.** Many countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu and, currently, COVID-19 (commonly known as the "CORONAVIRUS"), which the World Health Organization has declared to be a pandemic. The epidemic or pandemic outbreak of an infectious disease in a country or region of the world or globally, together with any resulting restrictions on travel, transportation, or production of goods or quarantines imposed, could have a negative impact on the national, regional, or global economy and business activity in any of the countries in which Welton may invest and thereby adversely affect the performance of Welton's investments. While the economic impact of the ongoing global outbreak of the CORONAVIRUS is presently uncertain, such outbreak and any future outbreak of an infectious disease or any other serious public health concern in a country, region, or globally could materially harm Welton's investments.

Specifically, a continued escalation in the CORONAVIRUS outbreak could see a continual decline in global economic growth (some economists have warned that global economic growth could be cut by more than half and that countries and the global economy could be plunged into recession). In addition, the CORONAVIRUS has led to significant volatility in the global financial markets and the CORONAVIRUS and any future outbreak of an infectious disease or any other serious public health concern may lead to additional volatility and illiquidity of Welton's investments. Additionally, the CORONAVIRUS could lead to the imposition of emergency or extraordinary regulatory restrictions on markets and trading activities, which could materially harm Welton's investments. Furthermore, the CORONAVIRUS and any future outbreak of an infectious disease or any other serious public health concern may lead to significant interruption in normal business activity of Welton's other service providers (including its financial intermediaries), which could negatively affect the performance of Welton.

**Brexit.** The United Kingdom formally left the European Union on January 31, 2020. The ongoing transition period could cause an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on Clients or Welton from an economic, financial or regulatory perspective but any such impact could have material consequences for Clients.

**Discontinuation of LIBOR.** It is expected that the London Interbank Offered Rate (“LIBOR”), which is commonly used as a reference rate within various financial contracts (any such rate, a “Reference Rate”), will not be published after the year 2021. In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which Clients are a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including Clients and their counterparties. With respect to certain financial contracts to which Clients are a party, any such contract that has a maturity that extends beyond 2021 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms) may need to be renegotiated, the process of which will consume resources of Clients and may result in disputes among counterparties, the result of which may be adverse to Clients. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which Clients are a party may adversely affect the performance of Clients.

**Modification of Trading Programs.** Welton may modify, add or delete any of the trading strategies that the Trading Programs may use at any time, including by refining the trading rules or the incorporation of additional markets or financial instruments.

**Disaster Recovery and Data Security.** Welton relies heavily on information technology and data management systems, which can fail or be subject to interruption or destruction caused by natural or man-made occurrences such as extreme weather, fires, earthquakes, power loss, telecommunications failures, terrorist attacks, hacking, break-ins, sabotage, intentional acts of destruction, vandalism, or similar events or misconduct. Any failure, interruption, or destruction of Welton’s information technology systems or data could have a material adverse impact on Welton’s operations and Client accounts. In addition, a breach in the security of Welton’s systems could result in the theft, disclosure, or loss of Client, proprietary, and other sensitive information.

Welton has in place information security, incident response, backup, and disaster recovery procedures intended to prevent or mitigate damage if such an event occurs. However, a breach

could nevertheless occur, and such procedures could fail or be insufficient to avoid, mitigate, or remedy the breach. Moreover, the ever-changing methods and technologies used to obtain unauthorized access to systems through means such as third-party acts, computer error, malicious code, employee error, or malfeasance often are not known until used against a potential target. Therefore, Welton may be unable to anticipate the destructive or invasive methods and technologies that could be used against its systems or to implement adequate protections.

**Risk of Loss Due to Trading Errors and the Failure of Trading Programs.** Clients are subject to the risk of failures or inaccuracies in the Trading Programs. Client trades may be placed or executed in error due to: (a) technical errors such as coding or programming errors in software, hardware problems and inaccurate pricing information provided by third parties; or (b) execution errors such as keystroke, typographic or inadvertent drafting errors. Clients will bear the risk of loss due to the foregoing errors unless such errors are due to Welton's gross negligence, fraud, recklessness or willful misconduct. Such errors may include, but are not limited to, situations where 1) a transaction was effected in violation of a Client's investment guidelines; 2) there is a failure to properly execute an instruction of a portfolio manager; 3) a buy order was entered instead of a sell order or vice versa; 4) the wrong financial instrument was purchased or sold; or 5) a financial instrument was purchased or sold in an amount or at a price other than the correct amount or price. However, nothing contained in this paragraph or in any other part of this Form ADV Part 2A should be construed as limiting a Client's rights under all applicable laws and/or the rights of any investor in a Fund under all applicable laws.

**Institutional Prime Money Market Funds.** The Trading Programs may include investment in non-U.S. institutional prime money market funds domiciled in Luxembourg (the "**Luxembourg MM**") as part of its cash management activities. The Luxembourg MM invests in high quality short-term money market instruments denominated in US dollars, including but not limited to bank certificate of deposits, commercial paper, corporate and sovereign variable and fixed rate bonds, repurchase agreements and cash deposits. Although the Luxembourg MM intends to maintain a stable net asset value per share, there is no legal requirement that it do so and there can be no assurance that it will. The value of the Luxembourg MM may be affected by the creditworthiness of issuers of the fund's investments and, notwithstanding the fund's policy of investing in short-term instruments, may also be affected by substantial movement in interest rates.

The Trading Programs also may invest in other types of money market funds (e.g. U.S. Government money market funds and/or U.S. "institutional prime money market funds"). In contrast to Luxembourg MM, U.S. Government money market funds trade at a stable net asset value. In addition, pursuant to regulations promulgated by the SEC that became effective in October 2016, U.S. "institutional prime money market funds" are permitted to impose liquidity fees and/or redemption gates when the funds' liquidity falls below a certain threshold. Furthermore, these regulations prohibit "institutional prime money market funds" from calculating a stable net asset value per share or price per share (i.e., a \$1.00 per share) and require such funds to sell and redeem their shares based on the current market-based value of the securities in their underlying portfolios, i.e., these funds are required to transact at a "floating" net asset value. These rules, and any rules that may be adopted by the SEC in the future could have a negative impact on the ability of investors in U.S. institutional prime money market funds to redeem from such money market funds and could potentially adversely affect investors in those money market funds.

## **Futures Trading Risks for the Futures Trading Programs and Multistrategy Trading Program**

**High Risk Investing.** Substantial risks are involved in trading and investing in futures and forward contracts. Trading in these instruments is inherently speculative and highly leveraged. The prices of futures and forward contracts are highly volatile and market movements are difficult to predict. Supply and demand for such instruments change rapidly and are affected by a variety of factors, including interest rates and general trends in the overall economy or industrial or other economic sectors. Government actions, especially those of the U.S. Federal Reserve Board, have a profound effect on interest rates which, in turn, affect the price of such investments. In addition, a variety of other factors that are inherently difficult to predict, such as domestic and international political developments, governmental trade and fiscal policies, patterns of trade and war or other military conflict can also have significant effects on such markets. Trading futures and forward contracts can quickly lead to large losses.

**Price Volatility.** Futures and forward contracts have a high degree of price variability and are subject to periodic rapid and substantial changes. Price movements for futures and forward contracts traded may be influenced by, among other things, changing supply and demand relationships, government, trade, fiscal and economic events and changes in interest rates.

**Futures and Forwards Markets are Leveraged and Speculative.** The low margin deposits normally required in futures and forward trading permit an extremely high degree of leverage. Accordingly, a relatively small price movement may result in an immediate and substantial gain or loss. Trading on a leveraged basis, even in stable markets involves increased risk; doing so in volatile markets necessarily involves a substantial risk of sudden, significant losses.

**Illiquidity of Markets.** Futures and forward positions cannot always be liquidated at the desired price. It is difficult to execute a trade at a specific price when there is a relatively small volume of buy and sell orders in a market. A market disruption, such as when foreign governments may take or be subject to political actions that disrupt the markets in their currency or major exports, can also affect the liquidity of the futures markets thereby making it difficult to liquidate a position.

**Speculative Position Limits.** The CFTC has established position limits with respect to futures contracts traded on exchanges located in the United States. The exchanges also may establish position limits for contracts traded through their facilities so long as such limits do not conflict with any applicable CFTC limits. Insofar as such limits do exist, all commodity accounts owned, held, controlled or managed by Welton and its principals and affiliates will be combined (that is, aggregated) for position limit purposes, and thus impair trading. Position limits are not, however, expected to have a material effect on Welton's futures trading.

**Daily Price Fluctuation Limits.** United States commodity exchanges may limit fluctuations in futures contracts prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased to the limit point, positions in the futures contract can be neither established nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent Welton's



Clients that trade futures from promptly liquidating unfavorable positions and subject such Clients to substantial losses that could exceed the margin initially committed to such trades.

**No Intrinsic Value of Positions.** Futures and forward trading is a “risk transfer” economic activity. For every gain, there is an equal and offsetting loss rather than an opportunity to participate over time in general economic growth. Overall stock and bond prices could rise or fall significantly and the economy as a whole could prosper or falter without regard to whether Welton trades futures and forwards profitably or unprofitably.

**Trading in Options on Commodity Interests.** An option on a commodity or a commodity futures contract is a right, purchased for a certain price, to either buy or sell a particular type of commodity or commodity futures contract during a certain period of time for a pre-established price. The Futures Trading Programs may involve such trading. Although successful commodity options trading would require many of the same skills as does successful commodity futures trading, the risks involved are somewhat different. For example, if Welton buys an option (either to sell or purchase a commodity or commodity futures contract), it will be required to pay a “premium” representing the market value of the option. Unless it becomes profitable to exercise or offset the option before it expires, the Client will lose the entire amount of such premium. Conversely, if Welton sells an option (either to sell or purchase a commodity futures contract), it will be credited with the premium but will have to deposit margin (which will in all cases exceed the premium received) due to their contingent liability to take the underlying futures position in the event the option is exercised. Traders who sell options are subject to the entire loss that may occur in the underlying commodity or commodity futures position (less any premium received). Commodity options trading on United States exchanges is subject to regulation by both the CFTC and such exchanges.

**Trading on Non-U.S. Exchanges.** Welton may engage in some of its trading for Client Accounts on commodity exchanges outside the United States. Trading on such exchanges is not regulated by any United States governmental agency and may involve certain risks not applicable to trading on U.S. exchanges. In trading contracts denominated in currencies other than U.S. dollars, unless positions taken are hedged against fluctuations in exchange rates, there is a risk of adverse exchange-rate movements between the dollar and the functional currencies of such contracts. In addition, some non-U.S. exchanges, in contrast to U.S. exchanges, are “principal markets” in which performance with respect to a contract is the responsibility only of the member with which the trader has entered into a contract and not of the exchange or clearinghouse, if any. In the case of trading on such non-U.S. exchanges, there is a risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts.

**Failure or Lack of Segregation of Assets by Clearing Brokers.** The Commodity Exchange Act requires a clearing broker to segregate from such clearing broker’s proprietary assets all funds received from futures customers. If one of the clearing brokers used by Welton fails to do so, assets of Clients that trade futures might not be fully protected in the event of that clearing broker’s bankruptcy and such Clients could be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing broker’s combined customer accounts, even though certain property specifically traceable to those Clients (for example, U.S. Treasury bills deposited with a clearing broker as margin) was held by the clearing broker.

**Risk of Forward Contracts and Other Over-the-Counter Derivatives.** Welton engages in currency exchange transactions with U.S. and foreign banks, brokers, and dealers in the interbank market, as well as forward contracts in other commodities with banks, brokers, dealers, and other financial institutions (collectively, “**Counterparties**”). Forward contracts are traded in OTC markets (as opposed to futures trades with a clearing organization backed by a group of financial institutions). Since forward contracts are traded in unregulated markets between principals where Counterparties are not required to segregate customer assets, Clients that trade forward contracts will assume the risk of loss from Counterparty nonperformance resulting from a Counterparty’s financial failure and/or trading abuses. Unlike in futures trading, the Counterparty to a forward contract generally is a single bank or other financial intermediary, rather than a clearing organization backed by a group of financial institutions. As a result, there is a greater Counterparty credit risk in forward transactions than in futures transactions.

Welton Clients also may enter into swap agreements and other OTC derivative transactions. All such privately negotiated OTC derivative transactions may expose clients to different or increased risks relative to investments that do not involve OTC derivative transactions. These risks include without limitation the risks of default by the Counterparty, premature termination of the transaction due to default by a Client, adverse changes in market conditions, and substantial costs for creating and maintaining the transaction. There is no liquid secondary market for OTC derivative transactions and no market transparency as to the pricing of new OTC derivative transactions or the voluntary unwinding of existing OTC derivative transactions. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated its transactions with a single or small group of Counterparties.

### **Fixed Income Trading Risks**

**Fixed Income Securities Risks.** Fixed income securities are subject to the risk that the securities could lose value because of interest rate changes. For example, bonds tend to decrease in value if interest rates rise. Fixed income securities with longer maturities sometimes offer higher yields, but are subject to greater price shifts as a result of interest rate changes than fixed income securities with shorter maturities. During periods of declining interest rates, a bond issuer may “call,” or repay, its high yielding bonds before their maturity dates. Fixed income securities are generally subject to the risk that the issuer may be unable to make principal and interest payments when they are due. There is also the risk that the securities could lose value because of a loss of confidence in the ability of the borrower to pay back debt. Lower rated fixed income securities involve greater credit risk, including the possibility of default or bankruptcy.

**Money Market Instruments.** Money market instruments generally are considered to be low risk, and, because by definition they are short-term securities, highly liquid. Nonetheless, money market instruments are subject to risk, including default risk, depreciation risk and liquidity risk. For example, money market instruments are often not backed by collateral. Although defaults on money market instruments have been rare, they have nonetheless occurred.

**Sovereign Debt Risk.** Investments in sovereign debt securities involve special risks. The governmental authority that controls the repayment of the debt may be unwilling or unable to repay the principal and/or interest when due in accordance with the terms of such securities due to: the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment

is due, the relative size of the debt service burden to the economy as a whole, or the government debtor's policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. If an issuer of sovereign debt defaults on payments of principal and/or interest, the Client may have limited legal recourse against the issuer and/or guarantor. In certain cases, remedies must be pursued in the courts of the defaulting party itself, and the Client's ability to obtain recourse may be limited.

**Asset Backed Securities (“ABS”) and Mortgage Backed Securities (“MBS”) Risks.** ABS and MBS are subject to risk of prepayment. This is more likely to occur when interest rates fall because many borrowers refinance mortgages to take advantage of more favorable rates. Prepayments on MBS are also affected by other factors, such as the volume of home sales. A Client's yield will be reduced if cash from prepaid securities is reinvested in securities with lower interest rates. The risk of prepayment may also decrease the value of MBS. ABS may have a higher level of default and recovery risk than MBS. However, both of these types of securities may decline in value because of mortgage foreclosures or defaults on the underlying obligations. Enforcing rights against the underlying assets or collateral may be difficult, or the underlying assets or collateral may be insufficient if the issuer defaults. The values of certain types of MBS, such as inverse floaters and interest-only and principal-only securities, may be extremely sensitive to changes in interest rates and prepayment rates.

**CMBS Risks.** CMBS are issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. CMBS generally lack standardized terms, tend to have shorter maturities than MBS and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

**Exchange Traded Funds.** An investment in an exchange traded fund (“ETF”) generally presents the same primary risks as an investment in a conventional mutual fund (i.e., one that is not exchange-traded) that has the same investment objective, strategies and policies. The price of an ETF can fluctuate within a wide range, and a Client could lose money when investing in an ETF if the prices of the securities owned by the ETF go down. In addition, ETFs are subject to the following risks that do not apply to conventional mutual funds: (i) the market price of the ETF's shares may trade at a discount to their net asset value; (ii) an active trading market for an ETF's shares may not develop or be maintained; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide “circuit breakers” (which are tied to large decreases in stock prices) halts stock trading generally.

**Exchange Traded Notes.** Exchange Traded Notes (“ETN”) are subject to the credit risk of the issuer. The value of an ETN will vary and may be influenced by the level of supply and demand for the ETN, volatility and lack of liquidity in underlying securities, currency and commodities markets as well as changes in the applicable interest rates, changes in the issuer's credit rating, and economic, legal, political, or geographic events that affect the referenced index. There may be

restrictions on a Client's right to redeem its investment in an ETN, which is meant to be held until maturity. Welton's decision to sell a Client's ETN holdings may be limited by the availability of a secondary market.

**Foreign and Emerging Market Securities.** Foreign securities, including derivative instruments, may be subject to more risks than U.S. domestic investments. These additional risks may potentially include lower liquidity, greater price volatility and risks related to adverse political, regulatory, market or economic developments. Investments in foreign securities involve exposure to fluctuations in foreign currency exchange rates. Such fluctuations may reduce the value of the investment. Foreign investments are also subject to risks including potentially higher withholding and other taxes, trade settlement, custodial, and other operational risks and less stringent investor protection and disclosure standards in certain foreign markets. In addition, foreign markets can and often do perform differently from U.S. markets. Investing in emerging markets also imposes risks different from, or greater than, risks of investing in foreign developed countries. For example, emerging markets are more likely to experience significant changes in currency valuations, which may adversely affect returns. Emerging markets may also have lower trading volumes and less liquidity than foreign developed countries. Assets custodied in emerging markets may also be subject to risks resulting from adverse actions of foreign governments.

#### **Equities Trading Risks for the Equities Trading Program and the Multistrategy Trading Program**

**High Risk Investing.** Substantial risks are involved in investing in equity securities. The prices of equity securities are highly volatile and market movements are difficult to predict. Supply and demand for equity securities change rapidly and are affected by a variety of factors, including interest rates and general trends in the overall economy or particular industrial or other economic sectors. Government actions, especially those of the U.S. Federal Reserve Board, have a profound effect on interest rates which, in turn, affect the price of such investments. In addition, a variety of other factors that are inherently difficult to predict, such as domestic and international political developments, governmental trade and fiscal policies, patterns of trade and war or other military conflict also can have significant effects on such markets. Each of the foregoing risks apply to the equities trading in North American securities.

**Use of Total Return Equity Swaps to Implement the Equities Trading Program and the Multistrategy Trading Program.** Welton's equity trading currently seeks to achieve its investment objectives by entering into equity swaps instead of by taking physical positions in the equity securities in which it is investing. The use of equity swaps for this purpose exposes Clients that trade equities to different risks than they would face if Welton implemented these strategies through direct investment in equity securities, but is intended to enable such Clients to obtain reduced costs and increased efficiency as compared with direct investments in equity securities. Clients that trade equities in this manner have no direct or indirect legal or beneficial ownership interest, security interest or other claim to the underlying assets of the equity swap, but instead only have a contractual right to receive payments from the counterparty based on the value of the assets (less various fees payable to the counterparty). The equity swap counterparty acts in a principal capacity as the seller of the equity swap and it has no involvement, directly or indirectly, with the management of the Welton's equities trading. Clients that trade equities bear the risk of loss of the amount expected to be received under an equity swap in the event that an equity swap

counterparty refuses or is unable to perform with respect to such total return swap, including due to the counterparty's bankruptcy or insolvency.

In addition, whether Welton's use of equity swaps will be successful also depends on Welton's ability to properly value these equity swaps in light of interest rates and other applicable factors. Moreover, managing the long and short exposures of the equity swaps to maintain a market neutral objective may not always be achieved and could actually exacerbate losses.

**Risk of Equity Swap Counterparty Failure.** The use of equity swaps to implement Welton's equities trading subjects Clients that trade such instruments to the risk of the equity swap counterparty's insolvency or bankruptcy.

The financial failure of an equity swap counterparty will impair its ability to meet its payment obligations to Clients under the equity swap. There can be no guarantee in the event of such a counterparty bankruptcy or insolvency that the pool of customer property held by the counterparty pursuant to applicable law will be sufficient to satisfy all customer claims, including those of Clients. Even if Clients do not lose the assets on deposit with the counterparty, Clients could incur market losses as a result of financial difficulties at such institutions (including but not limited to situations in which the Clients may be unable to gain access to the counterparty's assets and/or execute transactions through the counterparty). Welton currently uses the subsidiaries of two U.S. financial institutions as its counterparties, which concentration exacerbates this risk.

**Use of Non-U.S. Counterparties Could Increase Bankruptcy Risk.** The counterparties for the equity swaps involving underlying non-U.S. securities is one or more non-U.S. subsidiaries of two U.S. financial institutions. Non-U.S. institutions, including non-U.S. counterparties, may be subject to bankruptcy or other regulatory regimes different from those applicable to U.S. institutions, and in doing business with such non-U.S. institutions, Clients may not be afforded certain of the protective measures provided by U.S. laws and regulations.

**Increased Leverage Through Use of Equity Swaps.** Welton's equities trading does not have an explicit limit on leverage. The risk of loss (and the possibility of gain) generally increases in proportion to the amount of leverage used. As such, fluctuations in the market value of the equities portion of a portfolio could have a disproportionately large effect in relation to its capital and the possibilities for profit and the risk of loss will therefore be increased.

**Transaction Expenses.** Welton's implementation of its equities strategies may require frequent trading with relatively short holding periods for each of its positions. Frequent trades typically could result in greater overall transaction costs.

**Investment in U.S. Securities Markets/ U.S. Governmental Actions; Changes in Applicable Law.** In recent years, changes in laws and regulations have included more stringent registration and disclosure requirements and other heightened oversight requirements with respect to private investment funds and their advisers, new or increased restrictions with respect to certain trading techniques and related financial instruments (e.g., short sale restrictions, clearing and trading of over-the-counter derivatives and enhanced speculative position limits), potential changes to the tax treatment of U.S. (and non-U.S.) investment vehicles and their advisers, the creation of a single systemic risk regulator with regulatory oversight and authority over substantially all U.S. financial

markets and other substantial changes to the broader legal and regulatory framework in which such funds operate. Many of these changes are found in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). While many provisions of the Dodd-Frank Act have become effective, some important implementing rules and regulations (including many rules and regulations relating to security-based derivatives) have not yet been finalized, so the full impact of those provisions on Clients is not yet known. The regulation of private investment vehicles and their transactions also is subject to future modification by further legislative and regulatory action as well as judicial review.

**Investment in Non-U.S. Markets.** A significant portion of Welton’s equities investments are in non-U.S. markets. Since non-U.S. securities often are purchased with and payable in currencies of foreign countries, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. Non-U.S. securities markets may not be as developed, liquid, or efficient as those in the United States, and securities of non-U.S. issuers, even large-capitalization issuers, may be less liquid and their prices more volatile than securities of comparable U.S. issuers. Non-U.S. markets and non-U.S. issuers of securities generally are subject to less stringent or different regulations than are U.S. markets and issuers, and are subject to greater risks of expropriation and nationalization, confiscatory taxation, general social, political and economic instability and adverse diplomatic developments. There generally is less publicly available information regarding non-U.S. issuers of securities than typically is available about U.S. issuers.

**Geographic Concentration Risk.** Currently, Welton’s equities investment and trading activities involve liquid issuers located in various European countries, South Africa, North America (excluding Canada), Asia and Australia. If and to the extent that there is an over-concentration of its investments in Asia, Australia, South Africa or Europe, the Welton’s equities trading would assume the risk that economic, political and social conditions in those countries would have a significant impact on its investment performance. Welton’s equities trading investment performance also may be more volatile if it concentrates its investments in certain countries, especially emerging market countries.

**European Markets Risk.** The performance of the equity securities of large capitalization European issuers is affected by political, social and economic conditions in Europe, such as growth of the economic output (the gross national product), the rate of inflation, the rate at which capital is reinvested into European economies, the resource self-sufficiency of European countries and interest and monetary exchange rates between European countries. European financial markets may experience volatility due to concerns about high government debt levels, credit rating downgrades, the future of the Euro as a common currency, possible restructuring of government debt and other government measures responding to those concerns. In addition, if one or more countries were to abandon the use of the Euro as a currency, the value of investments tied to those countries or the Euro could decline significantly and unpredictably.

**South African Markets Risk.** The performance of the equity securities of liquid South African issuers is dependent in large part on the South African commodities markets. Any negative changes in commodity markets could have an adverse impact on the South African economy. A natural or other disaster occurring in South Africa could affect the economy or particular business operations of South African companies causing an adverse impact on investments in issuers of that

country. South Africa has privatized, or has begun a process of privatizing, certain entities and industries. Privatized entities may lose money or be re-nationalized. Investing in South African securities involves significant risks, including legal, regulatory and economic risks specific to South Africa. Among other things, South Africa's economy is heavily dependent on its agriculture and mining sectors, and, thus, susceptible to fluctuations in the commodity markets.

**Asia Markets Risk.** A disproportionately large percentage of market capitalization and trade volume in the stock exchanges and markets in Asia are represented by a relatively small number of issues. Asian financial markets may experience volatility due to political and economic developments in or affecting Asia, including changes in government policy, taxation and social, ethnic and religious instability. The economies of countries in Asia may differ favorably or unfavorably from the economies in Western countries in such respects as gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. The economies in Asia are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, and other protectionist measures imposed or negotiated by the countries with which they trade. Disclosure and regulatory standards in Asia are in many respects less stringent than standards in certain countries with more developed securities markets. Economic events in any one Asian country may have a significant economic effect on the entire Asian region, as well as on major trading partners outside Asia.

**Australia Markets Risk.** The economies of Australasia, which include Australia and New Zealand, are dependent on exports from the energy, agricultural and mining sectors. This makes Australasian economies susceptible to fluctuations in the commodity markets. Australasian economies are also increasingly dependent on their growing service industries. Because the economies of Australasia are dependent on the economies of Asia, Europe and the United States as key trading partners and investors, reduction in spending by any of these trading partners on Australasian products and services, or negative changes in any of these economies, may cause an adverse impact on some or all of the Australasian economies.

**Canada Market Risk.** When Welton trades in Canadian securities, certain additional risks may apply. The Canadian and U.S. economies are closely integrated. The United States is Canada's largest trading partner and foreign investor. Canada is a major producer of forest products, metals, agricultural products, and energy-related products, such as oil, gas, and hydroelectricity. As a result, the Canadian economy is very dependent on the demand for, and supply and price of, natural resources, and the Canadian market is relatively concentrated in issuers involved in the production and distribution of natural resources. Canada's economic growth may be significantly affected by fluctuations in currency and global demand for commodities. Periodic demands by Quebec for sovereignty could significantly affect the Canadian market.

**Currency and Exchange Rate Risks.** Transactions involving non-U.S. equity securities may be denominated in currencies other than the U.S. Dollar. There is no assurance that the Welton will be able adequately to hedge the risk of currency fluctuations between the U.S. Dollar and the foreign currencies in which equity securities transactions may take place.

**Derivatives.** Welton's Equities Trading Program and Multistrategy Trading Program also are permitted to enter into derivatives in addition to equity swaps, which are contracts in which the

payment obligations of the parties are defined by reference to chosen market measures. Such derivatives may be linked to interest rates, currencies, credit and/or securities and may take the form of futures and forward contracts, other swaps, caps, collars and floors and other similar contracts. The Equities Trading Program and Multistrategy Trading Program also are permitted to invest in hybrid instruments, which are obligations that combine the features of a debt security with those of a derivatives contract. Derivatives and hybrid instruments may be traded on exchanges or over-the-counter.

Derivatives may expose Clients to different or increased risks relative to traditional investments involving the purchase and sale of property and assets. In general, every derivative involves some degree of all of the following risks — credit risk, market risk, liquidity risk, funding risk, operational risk, legal and documentation risk, regulatory risk and tax risk, and may or may not be cleared. In particular, Clients will always be subject to the credit risk and risk of nonperformance of their derivatives counterparties and the issuers of its hybrid instruments. This risk can be mitigated by derivatives that are cleared with a clearinghouse.

To the extent that the Equities Trading Program and the Multistrategy Trading Program effect transactions for Clients in futures and forward contracts and fixed income securities, see the risks associated with these transactions above.

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#### **ITEM 9 – DISCIPLINARY INFORMATION**

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Welton does not have any disciplinary or legal events to report.

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#### **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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Welton is registered with the CFTC as a commodity pool operator and a commodity trading advisor and is a member in good standing of the National Futures Association in those capacities. See also Item 4. Welton's related person, Welton Global Funds Management Corporation, a Delaware corporation registered with the CFTC as a commodity pool operator, acts as the commodity pool operator of the Advisory Futures Fund Clients. Welton has appointed Wellington as the Advisory Futures Fund Clients' independent fixed income portfolio manager to provide discretionary fixed income portfolio management services with respect to certain securities. Wellington's fixed income portfolio management activities are subject to certain investment guidelines consistent with the foregoing that are established by Welton and may be revised and modified by Welton from time to time. See also Item 4. As noted in Item 5 above, investors in the Advisory Futures Fund Clients are subject to an additional layer of investment management fees by way of the Advisory Futures Fund Clients paying sub-advisory fees to Wellington. In addition, all Clients are subject to an additional layer of investment management fees due to fees paid to managers of money market funds held by Clients.



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## ITEM 11 – CODE OF ETHICS

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Welton has adopted a Code of Ethics (the “Code”) which sets forth the ethical and fiduciary principles and related compliance requirements under which Welton operates and the procedures for implementing those principles. The Code includes provisions which govern fiduciary duty, client opportunities, insider trading, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality.

With respect to personal trading by its principals, employees and related accounts (collectively, “Employees”), Employees are permitted to invest in Welton sponsored investment vehicles with the prior permission of the Chief Compliance Officer and Chief Executive Officer.

Welton’s employees are not permitted to engage in the trading of commodity futures contracts and over the counter (“OTC”) foreign exchange products.

Employees are permitted to engage in personal securities transactions, such as, the trading of equities, equity ETFs, equity indices and their related options, and cash securities provided that such accounts are disclosed to Welton and that any personal trading is consistent with applicable law and with the Code. Subject to compliance with the Code, Employees are permitted to buy, sell or hold, for their own personal trading accounts, cash securities and equity securities that may also be bought, sold or held for clients. However, employee personal trading should not create material conflicts of interest with Welton’s Trading Programs because trading for such programs and Clients is generally limited to cash securities and liquid issuers. Due to the liquid nature and availability of cash securities and equity securities of liquid issuers, Employee trading should not negatively affect client trading. In addition, Employees are required to hold securities for thirty days which further reduces the ability of Employees to trade in a manner that negatively affects client trading.

Certain Welton proprietary accounts and related person accounts regularly trade in the same securities or commodities with client accounts on an aggregated basis. In addition, proprietary accounts and related person accounts occasionally trade in different directions from client accounts in the same securities and commodities. Such trading by proprietary and related persons’ accounts should not present material conflicts of interest with trading for clients given the liquid nature and availability of securities and commodities traded for clients.

The Code contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to clients;
- prohibit trading on the basis of material nonpublic information;
- place limitations on personal trading by Employees and impose preclearance (in certain cases) and reporting obligations with respect to trading; and
- require initial and annual reports of securities holdings and monthly transaction reports by Employees.

Welton's Code of Ethics is available upon request to any client or prospective client by contacting Welton at (831) 626-5190.

Welton does not engage in principal transactions with client accounts.

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## **ITEM 12 – BROKERAGE PRACTICES**

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In the course of a client's investment activities a client may incur substantial brokerage commissions and other transaction expenses. Welton has complete discretion in deciding which brokers, futures commission merchants, and other financial and depository institutions (each, a "Financial Intermediary") the Funds will use and in negotiating rates of brokerage compensation except with respect to the portion of the Advisory Futures Fund Clients' assets managed by Wellington. In addition to using Financial Intermediaries as agents and paying commissions, the Funds buy and/or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns.

For the most part, Welton looks to select Financial Intermediaries it considers to be reputable and creditworthy. In making its selection of Financial Intermediaries, Welton takes into account the Financial Intermediary's reliability, reputation, financial responsibility, stability, ability to execute trades, arbitrage operations, nature and frequency of sales coverage, commission rate and responsiveness. Welton does not presently make use of any "soft dollar" arrangements.

### Future Trading Allocations

Often, more than one of the accounts managed by Welton trade in the same securities or futures contracts at the same time. In those situations, where Welton is ordering the trade, Welton aggregates (or bunches) such orders for clients acquiring the same instrument on the same day. Welton generally allocates such trades on a pro rata basis, based on the relative value of the accounts, or otherwise on a fair allocation amount determined at the time of the order. At times, certain accounts will be excluded from the aggregated trade order due to account limitations or market restrictions. In such an instance, such accounts' assets would be excluded from the total assets under management that is used to determine the bunched order being placed.

In addition, at times, Welton will not aggregate an order but, rather, will place an order directly for the benefit of specified accounts. This includes any orders placed to address material additions or withdrawals made to such accounts, as instructed by the account owners or other situations where a specific need of an account needs to be addressed.

When a bunched buy or sell order results in a split fill Welton allocates split fills on both buy and sell orders with the highest fill price to highest account number, and correspondingly, lowest fill price to lowest account number on all orders. When a bunched buy or sell order results in a partial fill Welton uses a partial fill rotational list to determine the allocation for the trade. This list is updated daily. All accounts are placed in numeric and alphabetical order initially and receive partial fill allocations based on this order for the trading day. Beginning with the next trading day, the account that was located in the first position is placed at the bottom of the list and the rest of the accounts move up in the rotation. At the next trading opportunity, Welton will attempt to

obtain the remainder of the contracts not filled, at or near the same price, or at the market, so that the accounts that did not receive a fill the preceding day will be provided the opportunity to follow the Welton trading signal as if they were filled on the previous day. When trading begins in a new account, this new account will be placed in the list according to numeric and alphabetical order.

To monitor that all accounts managed according to the same strategy are treated fairly and that there is no material difference in performance, Welton performs parity analysis on a monthly and rolling 12-month basis to review that all accounts managed according to the same strategy are obtaining relatively equal performance and that certain accounts are not being advantaged over other accounts based on Welton's allocation decisions or for other reasons. While Welton's goal is to be fundamentally fair on an overall basis with respect to all clients, there can be no assurance that on a trade-by-trade basis that any particular client will not be treated more favorably than another.

With respect to the portion of Advisory Futures Fund Client assets allocated to Wellington, Wellington has full and complete discretion to establish accounts and execute securities transactions with one or more Financial Intermediaries as Wellington Management may select, including those which from time to time may furnish to Wellington or its affiliates statistical and investment research or execution services; provided that the receipt of any statistical and investment research services comply with Section 28(e) of the Securities Exchange Act of 1934, as amended. Wellington is contractually required, pursuant to its investment management agreement with Welton and the Advisory Futures Fund Client, to seek best execution when selecting such Financial Intermediaries. On trades where Wellington has discretion it will allocate investment ideas and decisions with respect to the Advisory Futures Fund Client and its other clients based on its allocation procedures. Investors should carefully read Wellington's Form ADV Brochure for a description of Wellington's brokerage practices and allocation practices.

#### Equities Trading Allocations

Often it may be appropriate for more than one of the accounts managed by Welton according to the same equities trading strategy to trade in the same securities at the same time. In those situations, Welton aggregates (or bunches) such orders for clients acquiring the same instrument. Welton allocates such trades on a pro rata basis, based on the relative value of the accounts, or otherwise on a fair allocation amount determined at the time of the order. At times, certain accounts will be excluded from the aggregated trade order due to account limitations or market restrictions. In such an instance, such accounts' assets would be excluded from the total assets under management that is used to determine the bunched order being placed.

In addition, at times, Welton will not aggregate an order, or will aggregate an order using allocations different than those based solely on the relative value of the accounts for accounts managed according to the same equities trading strategy. These special circumstances include situations that address material additions or withdrawals made to such accounts, as instructed by the account owners or other situations where a specific need of an account needs to be addressed.

When a bunched buy or sell order results in a split fill Welton allocates split fills on both buy and sell orders by using the average price of the entire order for all account allocations. When a bunched buy or sell order results in a partial fill Welton allocates the fill amounts on a pro-rata

basis, based on the relative value of the accounts, or otherwise on a fair allocation amount determined at the time of the order.

To monitor that all accounts managed according to the same strategy are treated fairly and that there is no material difference in performance, Welton performs parity analysis on a monthly and rolling 12-month basis to review that all accounts managed according to the same strategy are obtaining relatively equal performance and that certain accounts are not being advantaged over other accounts based on Welton's allocation decisions or for other reasons. While Welton's goal is to be fundamentally fair on an overall basis with respect to all clients, there can be no assurance that on a trade-by-trade basis that any particular client will not be treated more favorably than another.

The equities trading strategies for the Equities Trading Program and the Multistrategy Trading Program are not identical. As a result, Welton may enter into an equity swap for the Equities Trading Program Clients which will have the economic equivalent of buying or holding a security while entering into an equity swap for Multistrategy Trading Program Clients which will have the economic equivalent of selling or selling short that same security or vice versa. Because of the liquid nature of the securities referenced under these two Trading Programs and the differences in investment strategies pursued by these two Trading Programs, Welton does not believe that taking such opposite positions will disadvantage either set of Trading Program Clients on an overall basis. However, such opposite positions and/or trades may be detrimental to one set of Clients on a short-term basis.

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### **ITEM 13 – REVIEW OF ACCOUNTS**

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All Client accounts, including portfolio positions, are generally reviewed monthly by middle office staff, including the Chief Financial Officer, and are subject to the Chief Compliance Officer's review. Investors in the Funds are provided with written monthly unaudited account statements and receive annual audited fiscal year-end financial information.

Equities Managed Accounts and Multistrategy Managed Account Clients have ongoing access to the holdings in their accounts because they establish the custodian accounts where their Client assets are held. In addition, upon request by such Clients, Welton will meet with or discuss by telephone the performance of Client accounts.

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### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

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In limited circumstances, Welton compensates third parties, including Financial Intermediaries, for referring prospective advisory clients (or investors in the Funds) to it. Such referral fees generally are a percentage of the management fees and/or performance-based compensation earned by Welton or such other amount as agreed to between Welton and the referring third party. Referred investors in a Fund do not pay any referral fees. To the extent applicable, referral arrangements conform to Rule 206(4)-3 of the Advisers Act.

Welton does not receive any economic benefit for providing advice to its clients from anyone other than its clients.

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#### **ITEM 15 – CUSTODY**

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Welton does not have actual custody of any client assets under Rule 206(4)-2 of the Advisers Act. Nonetheless, Welton is deemed to have custody of the assets of the Funds sponsored by Welton. In accordance with Rule 206(4)-2 of the Advisers Act, audited financial statements are furnished annually to all investors in the Funds.

Investors are urged to carefully review all account statements and annual audited financial statements and contact Welton if they have any questions.

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#### **ITEM 16 – INVESTMENT DISCRETION**

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Consistent with a client's investment objectives and in accordance with the applicable investment management agreement or, applicable Memorandum with respect to the Funds, Welton has the authority to determine, without obtaining client consent, (1) securities to be bought and sold and (2) the amount of securities to be bought and sold. Limitations on Welton's authority are guided by, among other things, (i) its responsibility to act as a fiduciary when handling clients' accounts, (ii) the investment strategies and objectives of its clients, and (iii) the applicable Memorandum with respect to the Funds.

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#### **ITEM 17 – VOTING CLIENT SECURITIES**

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Welton does not currently exercise discretion to vote proxies for client securities because its clients' portfolios do not currently include investments that grant Welton the right to vote proxies.

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#### **ITEM 18 – FINANCIAL INFORMATION**

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Welton has no financial condition that impairs its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.