

# Brean Asset Management, LLC

## **Form ADV Part 2A Brochure**

**Dated: March 30, 2020**

3 Times Square, 14<sup>th</sup> Floor  
New York, New York 10036

Telephone: 212-702-6677

Email: [pm@breanam.com](mailto:pm@breanam.com)

<https://www.breanam.com/>

**This Part 2A of the Form ADV (the “Brochure”) provides information about the qualifications and business practices of Brean Asset Management, LLC (“Brean”). If you have any questions about the contents of this Brochure, please contact us at (212) 702-6677 or [pm@breanam.com](mailto:pm@breanam.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

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

**References herein to Brean as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

**This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described in this Brochure.**

## **Item 2            Material Changes**

On July 19, 2019, Brean filed its initial application to register as an investment adviser with the SEC. Since filing its initial Form ADV, Part 2A, Brean has material changes regarding ownership and registration to report:

- In January 2020, Hunt FS Holdings III, LLC perfected its ownership interest in Brean.
- In February 2020, Brean Asset Management, LLC withdrew its investment adviser registration in the State of New York.

In addition to the material changes noted above, this Brochure has also been updated to reflect recent developments in Brean's business.

This Brochure may be requested, without charge, by contacting Brean's Chief Compliance Officer ("CCO") at (212) 702-6677.

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## **Item 4            Advisory Business**

Brean was organized as a limited liability company in the State of Delaware on November 7, 2014. Brean is principally owned by BMUR Holdings, Inc.

Brean is a discretionary investment manager specializing in multi-strategy and credit investments. Brean typically invests in corporate debt, commercial paper, certificates of deposit, municipal securities, collateralized mortgage obligations, mortgage-backed securities, equities, open and closed end mutual funds and exchange traded funds (“ETFs”), hedge funds, and derivatives in accordance with a Client’s (as defined below) designated investment objective(s).

Brean serves as a subadviser to a single-investor, private investment partnership (“Partnership”). Brean will also provide discretionary investment management to privately placed pooled investment vehicles (“Private Funds”) and separately managed accounts (“SMAs”) (collectively with the Partnership and Private Funds, the “Clients,” and individually, the “Client”). Brean offers discretionary advice on Client investments and potential investments in vehicles managed by third party managers, and anticipates that it may in the future offer non-discretionary advice on Client investments and potential investments in vehicles managed by third party managers. In providing such services to each Client, Brean will formulate its investment objective, direct, and manage the investment and reinvestment of each Client’s assets. Brean may tailor its advisory services as described in the investment program of the relevant Client’s subadvisory agreement, offering documents, and investment management agreement, as applicable.

The Clients may have investment objectives that are identical or substantially similar to other accounts. It is not anticipated that accounts having identical or substantially similar investment objectives will have identical or substantially similar investment portfolios. Differing investment portfolios can be expected to result from several factors, including, without limitation, the following: different investment decisions made by the different portfolio managers assigned to the accounts; regulatory constraints that apply to certain accounts but not to others; investment constraints imposed by certain Clients; and the amount of cash available for investment at certain times. As a result of factors such as these, accounts may have a different investment portfolio (and, as a result, different performance results) from other accounts even though the accounts have identical or substantially similar investment objectives. Portfolio managers are authorized to invest the assets of accounts for which they have investment responsibility in a wide range of underlying investments. As a result, it is expected that the accounts will have different investment portfolios resulting from different investment decisions made by their respective portfolio managers. In addition, there may be circumstances when one account will sell a security while another account may purchase the security on the same day.

In addition, Brean has the right to enter into agreements, such as side letters, with certain investors in the Private Funds that may in each case provide for terms of investment that are more favorable than the terms provided to other investors in the Private Funds. Such terms may include the waiver or reduction of management, and performance-based fees, the provision of additional information or reports, rights related to specific regulatory requests or requirements of certain Clients, more favorable transfer rights, and more favorable liquidity rights. Certain Clients (and underlying investors) may also negotiate for investment exposure (or investment limitations) with respect to specific industries, sectors, geographic regions or investments. These rights, benefits and privileges are not always made available to all investors in a Private Fund nor in some cases are they required to be disclosed to all investors in a Private Fund. Any such extension or disclosure is governed by a Client’s offering documents or investment management agreement.

From time to time, Clients may, to the extent permitted by the Rules of the Financial Industry Regulatory Authority ("FINRA") as may be amended from time to time (the "Rules"), purchase equity securities that are part of an initial public offering (sometimes referred to as "IPOs" or "new issues"). Under the Rules, broker-dealers may not sell such securities to a Client if the Client has investors who are "Restricted Persons", which category includes persons employed by or affiliated with a broker-dealer and portfolio managers of hedge funds and other registered and unregistered investment advisory firms, unless the Client has a mechanism in place that excludes such Restricted Persons from receiving allocations of profits from new issues. The profits and losses with respect to new issues will generally be allocated to investors in a Client that are not Restricted Persons.

Brean does not sponsor or participate in a wrap fee program.

As of December 31, 2019, Brean had \$87,960,623 in assets under management on a discretionary basis.

Persons reviewing this Form ADV Part 2A should not construe this as an offering of the Partnership or any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum, subscription agreement, and/or similar documentation to prospective investors.

## **Item 5            Fees and Compensation**

### **The Partnership**

An affiliate of Brean will receive a monthly performance fee on the net capital appreciation of the assets advised by Brean.

### **SMA**s

Brean expects to charge investment management fees, between 0% and 1.5%, monthly in arrears based on a percentage of the market value of the assets under management as of the last day of the month. Certain accounts pay a performance-based fee. Brean will generally require a minimum asset level of \$250,000 for SMA's. However, Brean, in its sole discretion, may negotiate and reduce its investment management and performance-based fees or minimum asset level requirements.

Investment management fees will generally be prorated for capital contributions and withdrawals during the applicable billing period. Accounts initiated or terminated during a billing period will be charged a prorated fee. SMA's may elect to have Brean's investment management fee deducted from their custodial account. Both Brean's investment management agreement and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of Brean's investment management fee and to directly remit that fee to Brean in compliance with regulatory procedures.

The investment management agreement between Brean and an SMA will continue in effect until terminated by either party by written notice in accordance with the terms of the investment management agreement.

### **The Private Funds**

#### Investment Management Fees

Brean expects to charge investors in the Partnership and the Private Funds an investment management fee between 0% and 1.5% per annum calculated as a percentage based on the investor's pro rata share of total assets under management of the Partnership or Private Fund, payable monthly in arrears. Management Fees will accrue daily and will be pro-rated for any partial period. Brean may negotiate fees with each investor in a Private Fund and may, in its discretion, waive fees for certain investors such as Brean affiliates and employees.

#### Performance-Based Fees

For the Private Funds, it is anticipated that an affiliate of Brean will receive a performance-based fee between 20% to 50% of net capital appreciation for each fiscal year, subject to a high watermark and on terms set forth in the offering documents for the Private Funds. Certain investors in the Private Funds, such as Brean affiliates and employees, may negotiate for and pay reduced performance-based fees.

### **Additional Expenses and Fees**

Clients and investors are anticipated to bear some or all of the following costs and expenses, which will be outlined in full in the relevant subadvisory agreement, offering documents, or investment management agreement:

- (i) all fees, costs, and expenses incurred in connection with the organization and startup of a Private Fund or other Client, any feeder vehicles sponsored by Brean, and a general partner or managing member of a Private Fund or its affiliates, including legal and accounting fees, printing costs, travel and out-of-pocket expenses, and all costs and expenses incurred in connection with the offering of interests in a Private Fund or other Client, including compliance with any blue sky laws and

Alternative Investment Fund Managers Directive and costs and expenses incurred in connection with the preparation, distribution, printing, and negotiation of any offering document (including any amendments or supplements thereto), any other marketing documents and organizational documents;

- (ii) all expenses attributable to investment activities, operations, and administration of a Client, or a general partner or managing member of a Private Fund and Brean on behalf of a Client;
- (iii) any and all fees, costs, and expenses incurred in connection with the evaluation, diligence, discovery, sourcing, investigation, development, researching, negotiation, financing, structuring, acquisition, consummation, monitoring, holding, maintaining, hedging, and management or disposition of investments (whether or not consummated) and temporary investments, including (A) sales commissions and fees, non-refundable deposits and costs and expenses, loan fees, syndication fees, private placement fees, brokerage and sales fees and commissions, appraisal fees, research fees, dealer spreads, interest and clearing and settlement charges, bank charges, commitment fees, transfer taxes and premiums, underwriting commissions and discounts, expenses relating to short sales, break-up fees; (B) fees and expenses related to market data (including, without limitation, expenses incurred in connection with any multimedia, analytical, database, news or third party research or information services, systems, reports and subscriptions and similar items, including participation in industry investor conferences); (C) professional fees and expenses, including legal (including costs of specialist internal counsel where a Client would otherwise engage external counsel), accounting, auditing, investment banking, third party industry and due diligence experts (including, without limitation, for asset, credit and risk analytics, and loss mitigation), valuation and appraisal fees, finders, originators, consulting (including fixed and/or performance fees and/or joint venture or other revenue share arrangements and expenses (including travel expenses) of consultants, advisors and insurance consultants), oversight servicer and asset servicer fees and expenses (including fixed and/or performance fees and/or joint venture or other revenue share arrangements); (D) filing, compliance and other related fees, interest and related expenses and custodial (if required by applicable law), depositary, trustee, record keeping and other administration fees and expenses, operations fees and expenses and reconciliation expenses; (E) travel, lodging and related expenses; and (F) all other fees, costs and expenses related to the evaluation, discovery, investigation, development, acquisition, monitoring, maintenance or disposition of potential or actual investments (whether or not consummated), or short-term investments;
- (iv) any and all fees, costs, and expenses incurred in implementing or maintaining third party software tools, programs or other technology for the benefit of the Clients (including, without limitation, any and all costs and expenses of any investment, books and records, portfolio or side letter compliance and reporting systems, including, without limitation, consultant, software licensing, data management and recovery services fees, expenses and Bloomberg subscription service fees and the costs of establishing computer and systems connectivity with the administrator and other third party service providers);
- (v) any and all costs and expenses and any other payments incurred in connection with the incurrence of leverage and indebtedness, including payments of, or in relation to, borrowings, rolls, reverse purchase agreements, credit facilities, transfer agreements used in connection with transfers of investments to and from another Client and/or to other entities, securitizations, margin financing and derivatives and swaps, and including payments of, or in relation to, any fees, principal or

interest on a Client's and any special purpose entity or feeder vehicle's borrowings and indebtedness;

- (vi) any and all auditing and accounting expenses of a Client, including, fees, costs and expenses incurred in connection with a Client's and any feeder vehicle's financial statements, reports, notices, tax returns, any tax filings and Schedules K-1 (or similar schedules), including the costs of creating, printing and distributing such financial statements, notices, reports, tax returns, tax filings and Schedules K-1 (or similar schedules) and the costs of implementing or maintaining client reporting and management software;
- (vii) any and all taxes and other governmental charges that may be incurred or payable by the Client and any feeder vehicle (including transfer taxes and premiums and entity-level taxes and fees associated with corporate licensing, but excluding any United States ("U.S.") or non-U.S. withholding taxes that are attributable to some but not all partners as well as any imputed underpayment, interest and penalties imposed pursuant to the new partnership income tax audit rules for U.S. federal tax purposes or any comparable state, local or foreign income tax audit rules)
- (viii) any and all fees and expenses of the Client's "tax matters partner" or "partnership representative" of the Client;
- (ix) any and all fees, costs, and expenses relating to the maintenance of registered offices, corporate licensing and similar expenses;
- (x) regulatory and compliances fees, costs and expenses directly related to a Client (including fees, costs and expenses related to the registration, qualification and or exemption under any applicable U.S. federal, state, or local laws, rules or regulations such as blue sky fees and a Client's reasonable share of Brean's reporting obligations directly related to a Client, such as Form PF) and fees payable to Cayman Islands Registrar of Companies and Registrar of Exempted Limited Partnerships and expenses incurred in connection therewith. For the avoidance of doubt such fees shall not include the preparation or annual update of Brean's Form ADV, the preparation and update of Brean's compliance manual or the registration of Brean with the SEC as an investment adviser;
- (xi) any and all insurance premiums, fees or expenses in connection with insuring the activities of the Clients and any feeder vehicle, the general partner or managing member of a Private Fund, Brean and/or their respective affiliates including cybersecurity, errors and omissions, fidelity bonds, general partner liability, directors' and officers' liability and similar coverage for any person acting on behalf of a Client, the general partner of a Private Fund, Brean, and their respective affiliates;
- (xii) any and all costs and expenses (including accounting, legal or regulatory fees and expenses) incurred to comply with any law or regulation related to the activities of the Clients (including legal or regulatory fees and expenses of the general partner of a Private Fund, Brean, the Clients and/or any of their respective affiliates in connection with ongoing compliance, filing and reporting obligations under applicable U.S. legislation, the Foreign Account Tax Compliance Act ("FATCA") or any other applicable laws) or incurred in connection with any litigation or governmental inquiry, investigation or proceeding involving a Client, the general partner of a Private Fund, Brean, or their respective affiliates, including the amount of any judgments, settlements or fines paid in connection therewith;



- (xiii) any and all costs and expenses incurred in connection with communications and reports (including the delivery thereof) and distributions to the Clients, the investors and investors in any feeder vehicle and to provide access to a database;
- (xiv) any and all costs, fees, and expenses incurred in connection with distributing proceeds to the Clients, the investors and to the investors in any feeder vehicle;
- (xv) any and all costs and expenses incurred in connection with any meeting of the investors or any advisory committee, including, without limitation, travel, meal, and lodging and related expenses;
- (xvi) out-of-pocket expenses incurred by members of any advisory committee and their representatives in connection with the fulfillment of their duties, including, without limitation, travel expenses incurred in connection with attending meetings (including, without limitation, transportation, meal, and lodging expenses), advisory committee member indemnification and insurance expenses;
- (xvii) any and all fees, costs, and expenses incurred in connection with the formation and organization, operation and restructuring of any feeder vehicle, alternative investment vehicle, special purpose vehicle, subsidiary, investment holding entity or special purpose entity, including, without limitation, legal, administration, compliance and accounting expenses, entity level taxes, fees and other governmental charges;
- (xviii) any and all of a Client's administrative fees, costs and expenses, including the fees and costs of an administrator, the fees, costs and expenses of negotiating an administrative services agreement with an administrator, expenses associated with data fees from the administrator and fees, costs and expenses associated with maintaining and reviewing a Client's books and records;
- (xix) any fees, costs, and expenses of any professionals and advisors who provide services to, or for the benefit of, a Client, including the fees of any accountants, counsel, or valuation experts;
- (xx) any fees, costs, and expenses in connection with claims relating to investments, and collecting monies due to a Client,
- (xxi) any and all fees, costs, and expenses incurred in connection with the dissolution, winding up or termination of a Client, any feeder vehicle, the general partner of a Private Fund or any special purpose entity;
- (xxii) any and all fees, costs, and expenses incurred in connection with any amendments, modifications, revisions or restatements to the constituent documents of a Client, any feeder vehicle or any investment holding entity or special purpose entity set up for the purpose of pursuing a Client's investment policy;
- (xxiii) any and all fees, costs, and expenses incurred in connection with computing the value and attributes of the assets of a Client, any special purpose entity and any feeder vehicle (including, without limitation and as applicable, any and all fees, costs and expenses associated with advisors, independent pricing services or data and third party valuation consultants, service contracts for quotation equipment and related hardware and software, phone and internet charges);

- (xxiv) any and all litigation costs and expenses incurred in connection with (including costs and expenses incurred in connection with, as well as the amount of where applicable, or amounts owed in respect of) the investigation, prosecution, defense, judgment, fine or settlement of litigation and other extraordinary expenses including, costs and expenses related to, and the amount of, a Client's indemnification);
- (xxv) any and all fees, costs, and expenses related to or in connection with any governmental inquiry, investigation or proceeding involving a Client or any feeder vehicle, including the amount of any judgments, settlements or fines paid in connection therewith;
- (xxvi) any and all fees, costs, and expenses incurred by a Client, any feeder vehicle, the general partner or managing member of a Private Fund, Brean, or their respective affiliates or employees, or any service provider for, or resulting from, any hedging transactions;
- (xxvii) fees, costs, and expenses related to any sale, assignment, transfer or pledge of interests in a Client, unless otherwise charged to or borne by the applicable investor or transferee;
- (xxviii) costs and expenses incurred in connection with the performance of loan origination, servicing, management, agenting, closing, settlement and due diligence services;
- (xxix) expenses (including, without limitation, legal and accounting costs and travel expenses) associated with any investment that is not consummated, including any portion thereof that may or would have been allocated to potential co-investors had such investment been consummated;
- (xxx) any other fees, costs and expenses incurred by the general partner or managing member of a Private Fund, Brean, a Client, any feeder vehicle or any of their respective affiliates relating specifically to a Client or any entity that directly or indirectly holds any investment;
- (xxxi) any and all fees, costs, and expenses incurred in connection with the consent to, and transfer of, loans originated by other Clients, including the costs of any independent representative or committee appointed to approve the value of any such loans to be transferred to, and purchased by, a Client and any and all fees, costs and expenses paid to any independent representative appointed to make the investment decision to purchase such loans, and any costs incurred in connection with the transfer itself; and
- (xxxii) Any operating expenses, redemption fees, and advisory fees charged by mutual funds, closed-end funds, ETFs, and alternative investment funds in which Client assets are invested.

Brean has adopted and implemented policies and procedures that govern the allocation of any shared expenses between or among Client accounts and Brean in a fair and equitable manner. In a manner consistent with Client arrangements or other organizational documents, Brean's Chief Operating Officer ("COO") determines whether each expense will be borne by the Client or Brean. The Chief Financial Officer maintains a list of all expenses, indicating whether each expense is generally borne by Clients or Brean, the applicable allocation percentages and the rationale for the allocation of each expense. On a quarterly basis, Brean will allocate common Client expenses from this list among multiple Clients pro rata based on gross assets under management as of the beginning of the quarter in which the expenses are incurred; provided, however, that Brean may deviate from pro rata allocations with respect to expenses that, in Brean's view, disproportionately benefit a particular Client or group of Clients. When considering

whether to allocate in a different manner with respect to a particular expense, Brean may consider transaction-related expenses and frequency of trading, among other factors. Where Brean determines that an expense disproportionately benefits a particular Client, Brean may charge all or part of the expense to that Client.

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

Brean and its advisory affiliates receive performance-based compensation with respect to certain Clients. Performance-based fee arrangements create an incentive for Brean to make investments with greater risk than would otherwise be the case in the absence of such arrangements. In addition, it creates an incentive for Brean to favor Clients that have greater performance fee arrangements over other Clients that have lesser or no performance fee arrangements in the allocation of investment opportunities. To mitigate this conflict, all investment decisions and allocations will be made in accordance with Brean's Investment Allocation Policy discussed under Item 11 below (as may be in effect at the relevant time), which are designed to ensure that all Clients are treated fairly and equitably in the allocation of investments.

## **Item 7           Types of Clients**

Brean provides discretionary investment management to the Partnership, Private Funds, and SMAs, and may in the future provide non-discretionary investment management to the Partnership, Private Funds, and SMAs. Underlying investors in Clients may include high net-worth individuals, family offices, financial institutions, insurance companies, corporations, sovereign wealth funds, endowment funds, charitable organizations, public and private pension funds and other investment funds. Brean will generally require a minimum asset level of \$250,000 for SMAs. However, Brean, in its sole discretion, may reduce its fees or minimum asset level requirements.

For the Private Funds, each underlying investor must be an “accredited investor” as defined in Regulation D under the Securities Act of 1933, as amended, and a “qualified purchaser” as defined in the 1940 Act. Certain employees of Brean who qualify as “knowledgeable employees” under Rule 3c-5 of the 1940 Act may be permitted to invest directly or indirectly in the Private Funds. The offering documents of each Private Fund will set forth the minimum amounts required for investment by prospective investors in such Private Funds. These minimum amounts may be waived by Brean or an affiliate. Investors should read the offering documents in full and consult with their advisors prior to making an investment.

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

Each Client's investment portfolio may participate in one or more of such asset categories and strategies as described in such Client's subadvisory agreement, offering documents, and investment management agreement, as applicable.

Brean's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer-term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but may incur higher transaction costs when compared to a short-term investment strategy and substantially higher transaction costs than a longer term investment strategy.

Brean may recommend investments in securities, loans, and leases in asset classes Brean believes to be relatively undervalued, based on credit, quality, sector, coupon or maturity. Brean seeks to identify fixed income sectors that it believes are favorable to Clients and the future prospects of each sector based on recent performance, monetary policy, investor sentiment, market momentum, business fundamentals, business cycles, and market cycles. Once Brean identifies a sector that is outperforming or has the potential to outperform the market as a whole, Brean identifies compelling specific investment opportunities based on its review of factors such as, for a fixed income security, the issuer's current and historical spreads to comparable Treasury securities, and fundamental analysis of issuer's future prospects.

Brean may offer Clients targeted to specific trading strategies in certain asset classes. A certain account may, for example, employ a combination of research and/or quantitative based security analysis using proprietary methods, which are always being updated. Some trades will rely primarily on quantitative criteria, with no hunches or biased opinions. The trading is not systematic or automatic and each trade is chosen individually on its own merits.

Brean offers Clients discretionary or non-discretionary services in analyzing and allocating investments to third party managers in which Brean will conduct due diligence and/or co-design the investment objectives.

Brean may advise Clients to allocate investments to co-investment vehicles created and managed by third party advisers. Certain Brean employees may also investment in such co-investment vehicles. Brean may receive compensation from such third party advisers or co-investment vehicles for advisory services. Brean will only offer co-investment opportunities should they arise and will offer such investments to Clients at our sole discretion or as determined by legal requirements.

Brean primarily allocates Client investment assets among various debt instruments including corporate debt, commercial paper, certificates of deposit, municipal securities, collateralized mortgage obligations, mortgage-backed securities, equities, open and closed end mutual funds and ETFs, and derivatives in accordance with the Client's designated investment objective(s).

Brean may utilize the following methods of security analysis:

- Charting - analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices;

- Fundamental - analysis performed on historical and present data, with the goal of making financial forecasts; and/or
- Technical – analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices.

Brean may utilize the following investment strategies when implementing investment advice given to Clients:

- Long Term Purchases - securities held at least a year;
- Short Term Purchases - securities sold within a year;
- Trading - securities sold within thirty (30) days; and/or
- Swaps - the exchange of one security for another to change the maturity.

### **Investment Risk**

The descriptions contained herein of specific strategies that are or may be engaged in by the Clients should not be understood as in any way limiting the Clients' investment activities. The investment strategy employed by Brean on behalf of Clients involves a substantial degree of risk. Clients and investors in the Partnership or a Private Fund may lose a substantial part of, or their entire investment. There can be no assurance that any Client will be able to make and realize any particular investment or generate returns or that such returns will be commensurate with the risks of investing in the types of transactions described in a Client's subadvisory agreement, offering documents, and investment management agreement, as applicable. Brean has listed certain risks below; however, this list of risks is not comprehensive or complete. Clients and investors are strongly encouraged to review the complete list of risks outlined in the offering documents for the Partnership or Private Funds, or as set forth in the Client's investment management agreement.

***Loss of Invested Capital.*** All investments are speculative. The value of interests will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the borrowers in respect of loan investments, governmental intervention, market conditions, and local, regional, national and global economic conditions. Therefore, investors may lose all or a portion of their capital invested in any account if the investment strategies are not successful.

***Securities Risks in General.*** Investments in securities generally involve a significant degree of risk. Price changes can be volatile and market movements are difficult to predict. The value of an individual security or particular type of security can be more volatile than, and can perform differently from, the market as a whole. The success of any investment strategy depends on Brean's ability to identify, select, and realize investments consistent with an investment strategy's objective.

***Liquidity Risk.*** Liquidity risk exists when particular investments are difficult to sell. Although most of the securities in which Brean invests are generally liquid at the time of investment, they may become illiquid after purchase, such as during periods of market turmoil. Illiquid securities may make it more difficult to value a portfolio, especially in changing markets. If a portfolio is forced to sell illiquid investments to meet redemptions or for other cash needs, the portfolio may suffer a loss. Securities of small-cap companies may not be traded in volumes typical of securities of larger companies. Because small-cap companies normally have fewer shares outstanding than larger companies, it may be more difficult to buy and sell significant amounts of small-cap company shares without an unfavorable impact on prevailing market prices. Thus, the securities of small-cap companies are generally less liquid, and subject to more abrupt or erratic market movements than those of larger companies.

***Economic Conditions.*** Changes in economic conditions such as interest rates, inflation rates, industry conditions, competition, technological developments, political and diplomatic events and trends, war, tax laws and innumerable other factors can substantially and adversely affect the business and prospects of portfolio performance. None of these conditions is within the control of Brean. The profitability of a portfolio depends to a great extent on correct assessments of the future course of price movements of securities and other investments. There can be no assurance that Brean will be able to accurately predict these price movements. The securities markets have in recent years been characterized by great volatility and unpredictability. With respect to the investment strategies utilized by Brean, there is always a significant degree of market risk.

***Suspensions of Trading.*** A public exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it impossible for Brean to liquidate portfolio positions, which would thereby be exposed to potential losses. In addition, there is no guarantee that over-the-counter markets, which trade fixed income securities, will remain liquid enough for the close out of positions.

***Financial Difficulties of Institutions and Custodians.*** There is a possibility that institutions, including brokerage firms and banks with which we do business, or to which securities have been entrusted for custodial purposes, will encounter financial difficulties that may impair operational capabilities.

***Dependence on Key Individuals.*** Management of portfolios is dependent on the experience and expertise of the investment team. In the event of death, disability, or departure of any such persons, Brean's business could be adversely affected.

***Cybersecurity Risk.*** Brean relies on the use of technologies to conduct business, and is susceptible to operational, information security and related risks, including risks of unintentional cyber incidents and deliberate cyberattacks. Cyberattacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of corrupting data, or causing operational disruption, as well as denial-of-service attacks on websites. Cyber incidents may cause disruptions and impact business operations, potentially resulting in financial losses, interference with a Client's ability to value its securities or account investments, impediments to trading, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. While Brean and its most significant counterparties and vendors have established business continuity plans and risk management systems to help mitigate cyber incidents, there are inherent limitations in such plans and systems that Brean is not in a position to control.

***Credit Risk.*** Brean cannot control and Clients are exposed to the risk that financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any broker utilized by a Client, notwithstanding asset segregation and insurance requirements that are beneficial to Clients generally. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of securities held by Clients. Finally, any issuer of securities may experience a credit event that could impair or erase the value of the issuer's securities held by a Client. The issuer of a fixed income security may not be able or willing to make interest and principal payments when due.



***Change in Credit Rating and/or Risk Weight.*** If a rating agency gives a debt security a lower rating, the value of the debt security will typically decline because investors will demand a higher rate of return. The applicable regulatory risk weight may also change.

***Interest Rate Risk.*** As nominal interest rates rise, the value of fixed income securities held by Client is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate. Inflation-indexed securities, including Treasury Inflation Protected Securities (TIPS), decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, inflation-indexed securities may experience greater losses than other fixed income securities with similar duration.

***Duration Risk.*** Prices of fixed income securities with longer effective maturities and durations are more sensitive to interest rate changes than those with shorter effective maturities and durations.

***Prepayment and Extension Risk.*** As interest rates decline, the issuers of securities held by a Client may prepay principal earlier than scheduled, forcing the Client to reinvest in lower yielding securities. As interest rates increase, slower than expected principal payments may extend the average life of fixed income securities, locking in below-market interest rates and reducing the value of these securities. To the extent that a Client invests in mortgage-backed securities, there is a greater risk that the Client will lose money due to prepayment and extension risks associated with these securities.

***Premium/Discount Risk.*** When a Client buys a fixed income security at a premium to its face value, it will be subject to the risk that the entire coupon (interest rate) may be paid out as a dividend. Over time the value of the Client's portfolio may decline, because the premium on the fixed income security declines as it approaches maturity (at maturity the market price of a fixed income equals its face value). The declining premium lowers the value of the security in the Client's portfolio. Thus, the Client may have attained a higher payout over the life of the fixed income, but at the expense of erosion in the value of such security over time. Premium erosion is most frequent among government and investment grade corporate bond funds.

***Call Risk.*** This is a risk that the issuer of a bond may call, or redeem, bonds before their maturity date. If an issuer "calls" its bond during a time of declining interest rates, investors in the bond might have to reinvest the proceeds in an investment offering a lower yield, and therefore might not benefit from any increase in value as a result of declining interest rates.

***Floating and Variable Rate Securities.*** There is a risk that the current interest rate on floating and variable rate instruments may not accurately reflect existing market interest rates.

***Municipal Securities Risks.*** Municipal securities are subject to the risk that the municipality may be unable or unwilling to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer are domiciled.

***U.S. Government and Agency Securities.*** Not all obligations of the U.S. government, its agencies, and instrumentalities are backed by the full faith and credit of the U.S. Treasury. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there may be some risk of default by the issuer. Any guarantee by the U.S. government or its agencies or instrumentalities does not

apply to the market value of such security. A security backed by the U.S. Treasury or the full faith and credit of the U.S. is guaranteed only as to the timely payment of interest and principal when held to maturity. In addition, because many types of U.S. government securities trade actively outside the U.S., their prices may rise and fall as changes in global economic conditions affect the demand for these securities.

***Mortgage- and Asset-Backed Securities Risk.*** Mortgage-related securities include pass-through securities, collateralized mortgage obligations (“CMOs”), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The value of some mortgage- or asset-backed securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may expose a Client to a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related security generally will decline; however, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as other fixed income securities. The value of these securities may fluctuate in response to the market’s perception of the creditworthiness of the issuers. Asset-backed securities typically are supported by some form of credit enhancement, such as a letter of credit, surety bond, limited guaranty or senior subordination. The degree of credit enhancement varies, but generally amounts to only a fraction of the asset-backed security’s par value until exhausted. If the credit enhancement is exhausted, certificate holders may experience losses or delays in payment if the required payments of principal and interest are not made to the trust with respect to the underlying loans. The value of these securities also may change because of changes in the market’s perception of the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing the credit enhancement. In addition, these securities also may be subject to prepayments, which may shorten the securities’ weighted average life and may lower their returns.

***Junk Bond Risk.*** A Client may be subject to greater levels of credit risk as a result of investing in high yield securities and unrated securities of similar credit quality (commonly known as “junk bonds”). These securities are considered predominately speculative with respect to the issuer’s continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce a Client’s ability to sell these securities (liquidity risk). If the issuer of a security is in default with respect to interest or principal payments, the Client may lose its entire investment.

***Competition for Investments.*** In connection with fixed income, it may be more difficult to obtain certain bonds, especially certain municipal bonds, or to obtain certain bonds at an attractive price relative to larger fixed income managers.

***Derivatives Risk.*** Brean may invest in derivatives to gain market exposure, enhance returns or hedge against market declines. Examples of derivatives are options, futures, options on futures and swaps. Brean’s use of derivative instruments involves risks different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments. These risks include: (i) the risk that the counterparty to a derivative transaction may not fulfill its contractual obligations, (ii) risk of mispricing or improper valuation, and (iii) the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. These risks could cause an investment to lose more than the principal amount invested. In addition, investments in derivatives may involve leverage, which means a small percentage of assets invested in derivatives can have a disproportionately larger impact on the investment.

**Swap Agreements.** Clients may occasionally enter into various swap agreements (“Swaps”) as part of its investment program. A Swap is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal (“notional”) amount or quantity. Swaps and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, a Client is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which a Client transacts. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. Clients are not limited to any particular form of Swap if its use is consistent with a Client’s investment objectives and policies, and Brean anticipates that Clients will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps and other types of Swaps.

**Equity Risk.** The prices of equity securities in which Brean may invest rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may decline in response. In addition, the equity market tends to move in cycles, which may cause stock prices to fall over short or extended periods of time.

**ETF Risk.** From time to time, certain accounts may invest in equity-based ETFs. ETFs are investment companies that are registered under the Investment Company Act, typically as open-end funds or unit investment trusts. Unlike most mutual funds, an ETF has the flexibility of trading intra-day. Because ETF shares trade intra-day, the market determines prices and investors can buy or sell shares at any time that the markets are open. Equity-based ETFs are subject to risks similar to those of individual equity securities, as described above. ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange-traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

Clients should be aware that to the extent Brean invests in ETF securities, they will pay two levels of compensation - fees charged by Brean plus any management fees charged by the issuer of the ETF. This scenario may cause a higher cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

ETFs typically include embedded expenses that may reduce the fund’s net asset value, and therefore directly affect the fund’s performance and indirectly affect a Client’s portfolio performance or an index benchmark comparison. Expenses of the fund may include investment adviser management fees, custodian fees,

brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. ETF tracking error and expenses may vary.

***Market Information and Forecasts.*** Every method of analysis has its own inherent risks. To perform an accurate market analysis Brean must have access to current/new market information. Brean has no control over the dissemination rate of market information; therefore, unbeknownst to Brean, certain analyses may be compiled with outdated market information, severely limiting the value of Brean's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and profitable investment opportunities.

***Novel Coronavirus Pandemic, Public Health Emergency and Global Economic Impacts.*** As of the date of this Form ADV Part 2A, there is an ongoing outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization declared a pandemic on March 11, 2020. The outbreak of COVID-19 has caused a worldwide public health emergency with a substantial number of hospitalizations and deaths, and has significantly adversely impacted global commercial activity and contributed to both volatility and material declines in equity and debt markets. The global impact of the outbreak is rapidly evolving, and many country, state and local governments have reacted by instituting mandatory or voluntary quarantines, travel prohibitions and restrictions, closure or reduction of offices, businesses, schools, retail stores and other public venues and/or cancellation, suspension or postponement of certain events and activities, including certain non-essential government and regulatory activity. Businesses are also implementing their own precautionary measures, such as voluntary closures, temporary or permanent reductions in work force, remote working arrangements and emergency contingency plans. Such measures, as well as the general uncertainty surrounding the dangers, duration and impact of COVID-19, are creating significant disruption in supply chains and economic activity, impacting consumer confidence and contributing to significant market losses, including having particularly adverse impacts on transportation, hospitality, tourism, sports, entertainment and other industries dependent upon physical presence. As COVID-19 continues to spread, potential additional adverse impacts, including a global, regional or other economic recession of indeterminate duration, are increasingly likely and difficult to assess.

The extent of the impact of COVID-19 on Brean's and/or a Client's operational and financial performance and each Client's investments will depend on many factors, including the duration and scope of the resulting public health emergency, the extent of any related restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity, and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of the COVID-19 pandemic may materially and adversely impact the value, performance and liquidity of a Client's investments, Brean's ability to source, manage and divest investments and Brean's ability to achieve its investment objectives on behalf of its Clients, all of which could result in significant losses to a Client and its investors.

COVID-19 may also adversely impact the financial condition of one or more beneficial owners of a Client, which could result in capital call defaults/redemption requests by such beneficial owner as a result of their individual liquidity situations and irrespective of Client performance. Such beneficial owner defaults/redemption requests could also adversely affect the Client.

In addition, COVID-19 and the resulting changes to global businesses and economies likely will adversely impact the business and operations of Clients, Brean, and their respective affiliates. Certain businesses and activities may be temporarily or permanently halted as a result of government or other quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors, including the potential adverse impact of COVID-19 on the health of key personnel.

***Other Catastrophic Risks.*** In addition to the potential risks associated with COVID-19 as outlined above, Clients, Brean, and their respective affiliates, may be subject to the risk of loss arising from direct or indirect exposure to a number of types of other catastrophic events, including without limitation (i) other public health crises, including any outbreak of SARS, H1N1/09 influenza, avian influenza, other coronavirus, Ebola or other existing or new epidemic diseases, or the threat thereof; or (ii) other major events or disruptions, such as hurricanes, earthquakes, tornadoes, fires, flooding and other natural disasters; acts of war or terrorism, including cyberterrorism; or major or prolonged power outages or network interruptions. The extent of the impact of any such catastrophe or other emergency on Brean's and/or a Client's operational and financial performance and each Client's investments will depend on many factors, including the duration and scope of such emergency, the extent of any related travel advisories and restrictions, the impact on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity, and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. In particular, to the extent that any such event occurs and has a material effect on global financial markets or specific markets in which a Client participates (or has a material effect on any locations in which Brean operates or on any of its personnel) the risks of loss could be substantial and could have a material adverse effect on Clients or the ability of Brean to fulfill its investment objectives on behalf of its Clients.

## **Item 9            Disciplinary Information**

Brean and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an investor's evaluation of Brean or its personnel.

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

Brean is not registered as a broker-dealer, a futures commission merchant, a commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

Affiliates of Brean may serve as special limited partners, general partners, or managing members to certain Clients. These general partners or managing members will receive the performance-based fee.

### **Affiliated Broker-Dealer - Brean Capital LLC**

In certain circumstances, Brean may execute Client transactions with Brean Capital LLC (“Brean Capital”), a broker-dealer under common control with Brean. Brean Capital will generally earn a Markup or Markdown on purchases or sales in lieu of brokerage commissions or transaction fees. In addition, certain employees of Brean are registered representatives of Brean Capital and receive commissions or commission equivalents related to brokerage transactions executed through Brean Capital. While Brean and its representatives endeavor at all times to put the interest of Brean’s Clients first as part of Brean’s fiduciary duty, Clients should be aware that the receipt of compensation by this affiliated broker-dealer, as well as Brean employees who are registered representatives of Brean Capital, for Client transactions creates a conflict of interest. Specifically, Brean and its employees who are registered representatives of Brean Capital have a financial incentive to execute Client transactions with Brean Capital. All trades between Brean and Brean Capital are reviewed by Brean Capital’s Head of Operations as well as Brean’s CCO and COO.

In addition, Brean may trade the same securities in Client portfolios that are traded by Brean Capital for its clients’ portfolios. In the event this occurs, Brean’s Clients may receive a better or worse price or execution than Brean Capital’s clients depending on the order of trade execution, the type of security traded, and the broker-dealer used. Brean’s strategies are distinct from Brean Capital’s trading activity. Brean does not use Brean Capital as an executing broker nor does it coordinate with Brean Capital as it relates to trading. The affiliates do not have visibility into each other’s trading book. If Brean trades for a Client in a security that Brean Capital also trades in, the transaction is conducted by two different counterparties unbeknownst to the affiliates.

When trades are placed by (or at the direction of) a portfolio manager in the same security on the same day for Clients of Brean, the portfolio manager will seek to obtain best execution in a manner deemed fair and reasonable by Brean in accordance with brokerage practices discussed below in Item 12.

### **Principal Trading and Cross/Agency Cross Transactions**

When permitted by applicable law and Brean policy, Brean, acting on behalf of its Clients, may enter into transactions in securities and other instruments with or through Brean Capital, and may (but is under no obligation or other duty to) cause Clients to engage in principal transactions, cross transactions, and agency cross transactions. Principal transactions occur if Brean, on behalf of Clients, engages in a transaction in securities or other instruments with Brean Capital acting as principal. Brean Capital may earn compensation in connection with these transactions. Cross transactions occur if Brean causes a Client to buy securities or other instruments from, or sell securities or other instruments to, another Client of Brean. An agency cross transaction occurs if Brean Capital acts as broker for, and receives a commission from, Client on one side of the transaction and a brokerage account on the other side of the transaction in connection with the purchase or sale of securities by the Client. There may be potential conflicts of interest, regulatory issues or restrictions contained in Brean’s internal policies relating to these transactions, which could limit Brean’s determination to engage in these transactions for Clients. In certain circumstances such as when Brean

Capital is the only or one of a few participants in a particular market or is one of the largest such participants, such limitations may eliminate or reduce the availability of certain investment opportunities to Clients or impact the price or terms on which transactions relating to such investment opportunities may be effected.

Brean may (but is under no obligation or other duty to) cause Clients to engage in cross transactions involving interests in hedge funds and other private or non-private funds. For example, Brean may cause a Client to buy or sell interests in a hedge fund, including such interests that are illiquid or difficult-to-value, from or to another Client. This will typically occur when one Client determines to sell an interest in a hedge fund at the same time that another Client wishes to purchase an interest in the same hedge fund. Transactions in respect of illiquid or difficult-to-value assets may be effected at a discount to the net asset value of the illiquid assets provided by Brean. Another example of cross transactions involving hedge funds occurs when Brean Clients rebalance their interests in hedge funds over the course of a stated period of time.

In certain circumstances, Brean Capital may, to the extent permitted by applicable law, purchase or sell securities on behalf of Client as a “riskless principal.” For instance, Brean Capital may purchase securities from a third party with the knowledge that a Client is interested in purchasing those securities and immediately sell the purchased securities to such Client. In addition, in certain instances, a Client may request Brean Capital to purchase a security as a principal and issue a participation or similar interest to the Client in order to comply with applicable local regulatory requirements. Brean Capital will have a potentially conflicting division of loyalties and responsibilities to the parties in such transactions, including with respect to a decision to enter into such transactions as well as with respect to valuation, pricing and other terms. Brean has developed policies and procedures in relation to such transactions and conflicts, including appointing an unaffiliated person to engage in such brokerage transactions. In addition, each portfolio manager is responsible for notifying the CCO prior to arranging for a principal or cross/agency cross transaction. In instances in which Brean acts as principal, or as a broker for compensation, the CCO seeks to ensure that the required notice is given and consent is obtained, where applicable. The CCO is also responsible for reviewing all agency cross transactions for compliance with applicable procedures.

However, there can be no assurance that such transactions will be effected, or that such transactions will be effected in the manner that is most favorable to a Client that is a party to any such transaction. Cross transactions may disproportionately benefit some Clients relative to other Clients due to the relative amount of market savings obtained by the Clients. Principal, cross, or agency cross transactions will be effected in accordance with fiduciary requirements and applicable law (which may include disclosure and consent). In the case of the Partnership, Private Funds, or certain other Clients, consent may be granted by a governing body or a committee of investors or independent persons acting for a Client, in which case other investors will not have the opportunity to provide or withhold consent to the proposed transaction.



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

Brean has adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 and is predicated on the principal that Brean owes a fiduciary duty to its Clients. Accordingly, employees of Brean must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of Clients. Specifically, Brean's Code of Ethics requires, among other things, that employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, Clients, prospective Clients, employers, other employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of Clients, and the interests of Brean above one's own personal interests;
- Adhere to the fundamental standard that employees should not take inappropriate advantage of their position;
- Avoid or disclose any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with its policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Brean's Code of Ethics also requires employees to: 1) pre-clear certain personal securities transactions, 2) report certain personal securities transactions on at least a quarterly basis, and 3) provide Brean with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

Brean, its employees, and affiliates may buy or sell securities that are also recommended to Clients, at or around the same time. This practice may create a situation where Brean, its employees, and affiliates are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. Brean has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of its employees. As noted above, Brean requires employees to pre-clear certain personal securities transactions.

A copy of Brean's Code of Ethics is available upon request by contacting Patrick Marano, Brean's CCO, at (212) 702-6677 or [pm@breanam.com](mailto:pm@breanam.com).

### **Investment Allocation and Aggregation**

Brean and its affiliates may from time to time act as investment manager in relation to, or be otherwise involved with, other Clients that follow an investment program substantially similar to that of Clients. The investment objectives and programs of certain Clients may be similar to, or overlap with, the investment objectives and proposed investment programs of other Clients and, therefore, certain affiliates regularly

compete for investment opportunities with each other (and potentially with Brean). As a result, the allocation of investment opportunities gives rise to potential and actual conflicts of interest. In making allocation decisions with respect to limited investment opportunities that could reasonably be expected to fit the investment objectives of Clients or of Brean itself, Brean anticipates that it may consider one or more of the following factors that it deems relevant: the investment objectives of Clients; the source of the investment opportunity; any exclusive rights to investment opportunities that may have been granted to particular Clients; the expected duration of the investment in light of Clients' investment objectives and policies (including diversification policies); the amount of available capital; available financing of the Clients; proximity of a Client to the end of its investment period and/or term; the size of the investment opportunity; regulatory and tax considerations; the degree of risk arising from an investment; the expected investment return relative to the Client's target return; relative liquidity needs of the Clients; likelihood of current income; and such other factors as Brean deems to be appropriate. These factors provide substantial discretion to Brean in allocating investment opportunities.

Further, two or more Clients may hold an investment for which there is extremely limited, or no, liquidity or that is subject to legal or other restrictions on transfer. In a situation where Brean is limited in its ability to dispose of an investment, Brean may consider the factors described above in allocating the sale of such an investment. If an investment opportunity is available in limited quantities, and subject to investment restrictions and fiduciary duties, Brean may have an incentive to allocate such investment opportunity to Brean or its employees or to one particular Client rather than another Client. For example, such an incentive may arise if the economic interests of Brean and its employees in certain of these Clients, when combined with their rights to investment management fees and performance-based fees, are significantly larger than their direct and indirect economic interests in other Clients. Such an instance may lead to fewer, and less attractive, investment opportunities being made available to Clients than would have been the case had Brean and its employees been restricted from pursuing proprietary investments and investment programs on behalf of other Clients. In an attempt to resolve those conflicts in the context of allocating credit opportunities, Brean has developed a set of allocation procedures, which will take into account many of the above enumerated factors, as well as other considerations, in determining how investment opportunities will be allocated among various Brean proprietary accounts, managed accounts and other affiliated and unaffiliated persons to whom such opportunities might be offered or with whom such opportunities may be participated in the future. In addition, Brean has established an Investment Allocation Committee, to assist in ensuring the effective implementation of its Investment Allocation Policy. The Investment Allocation Committee members are the Managing Principal, Chief Investment Officer ("CIO"), COO, and CCO. The CCO is also responsible for monitoring Brean's Client trading for compliance with its Investment Allocation Policy as well as monitoring certain employee trading under Brean's Code of Ethics. The CCO, with the assistance of portfolio managers, also compares the performance of Brean's Client accounts with substantially similar investment objectives, guidelines, and restrictions.

All transactions among Brean Clients on the one hand and other affiliates of Brean on the other hand will be approved in a manner designed to comply with Section 206(3) of the Advisers Act. Where Clients, Brean itself, or its employees hold the same investment, the differing investment objectives of such Clients, as well as other factors applicable to the specific situation, may result in a determination to dispose of, or retain, all or a portion of such investment on behalf of Clients (or on behalf of another Client, Brean itself or its employees) at different times for different Clients. In addition, particularly with respect to illiquid or private investments, conflicts of interest can arise when disposing of a particular investment, which would be beneficial for one Client while retaining such investment would be beneficial for another Client. Brean may also invest in securities on behalf of one Client (or Brean itself or its employees may purchase such securities) that may differ from investments made on behalf of another Client, even though the investment

objectives of the Clients may be similar. Moreover, Clients, Brean or Brean's employees may make investments or engage in other activities that express inconsistent views with respect to an investment, a particular security or relevant market conditions. In addition, Brean expects to make other business decisions on behalf of certain Clients relating to investments independently of the manner in which it approaches a similar or even the same investment held by other Clients. Consequently, Brean, on behalf of certain Clients, may choose not to hedge certain risks that other Clients hedge, or certain Clients may be exposed to risks of financing on an investment when other Clients are not.

Further, in some instances, Brean may choose to coordinate its Clients' activities (such as timing dispositions in an orderly way in order to avoid affecting the value of an investment in an unduly volatile manner) with respect to investments held by more than one Client when it would theoretically be possible for Brean to act unilaterally with respect to a particular Client's holdings in such investment. Such coordination could have the effect of lowering returns for a particular Client with respect to an investment relative to what might have been achieved absent such coordination.

If Clients invest in entities or assets in which other Clients hold an investment, the investment by such Clients could be viewed, especially in hindsight, to have been made on a non-arm's-length basis and could have an effect (either positive or negative) on the market price of the initial investment. Clients, or Brean itself, may hold interests in an entity that are of a different class or type than the class or type of interest held by another Client. For example, Clients may hold securities in an entity where another Client may hold equity or debt of such entity that are senior or junior, which could mean that Clients will be entitled to different payment or other rights, or that in a workout or other distressed scenario the interests of certain Clients might be adverse to those of other Client(s) and certain Client(s) might recover all or part of their investment while others might not. Brean Clients will not be required to take any action or refrain from taking any action to mitigate another Client's losses in such a scenario, and Brean will make decisions on how to resolve such situations in its sole discretion. Brean will not enter into transactions in which it knowingly and deliberately favors itself or one Client over another; however, Brean is given considerable discretion to make investments for other accounts and intends to do so to a significant extent.

## **Valuation**

Brean will value investments in accordance with its valuation policies and procedures as well as each Client's subadvisory agreement, offering documents, and investment management agreement, as applicable.

Securities that are listed on a securities exchange will be valued at their last sales prices on the date of determination or, if no sales occurred on such day, at the mean between the bid and asked prices on such day. With respect to exchange-traded options, the value shall be the last reported mid-price as of the valuation date. If the mid-price is not available for such options, the prior day's mid-price will generally be used. Securities that are not listed on a securities exchange (e.g., put or call options, warrants or convertible bonds) will be valued at their last sales prices on the date of determination, or, if no sales occurred on such day, at their closing bid prices if owned and held in a long position and their last closing asked prices if held as a short position. All other securities and all property other than securities will be valued at fair value as reasonable determined. Securities or other property that are subject to any restriction will be valued taking into account such restriction.

Brean will write up or write down the valuation of its investments if it determines, in accordance with its valuation procedures that the realizable value of such investments differs from their current valuation. Such valuations may include the use of independent valuations and third party valuation agents. The fair value

of certain investments will be estimated, with such valuation referencing a variety of factors, including proprietary or industry-available valuation models, the borrower's financial strength and stability and any specific rights or restrictions associated with such investment. Absent bad faith or manifest error, the valuation determinations made by Brean (or its designee) will be binding on all Clients. To the extent that Brean's investment valuations will impact the overall valuation of Client accounts, and hence Brean's fees, Brean will have a conflict of interest. Specifically, Brean has an incentive to assign higher valuations to investments, which would result in higher fees. Brean has implemented valuation policies and procedures to establish appropriate supervision and oversight of the valuation process to mitigate this risk. Brean established a Valuation Committee to assist in ensuring the effective implementation of Brean's valuation policies and procedures. The Valuation Committee members consist of the: Managing Principal, CIO, COO, and CCO. To the extent security valuations are determined by the administrator of a private fund, Brean will review the accuracy of the administrator's valuations at least annually.

### **Restrictions of Fund Trading Activities-Material Non-Public Information**

Employees of Brean regularly acquire confidential information and Brean may enter into confidentiality when assessing investment opportunities. By reason of its various activities and affiliations, Brean and its employees may have access to material non-public information ("MNPI") about an issuer. For example, an employee of Brean may serve from time to time as a director, or in a similar capacity, or as an executive officer, with respect to, the securities of which may be purchased or sold on behalf of Clients, which service may prohibit all Clients from engaging in transactions in certain issuers. Additionally, employees of Brean may acquire MNPI in the ordinary course of their investment activities, which acquisition may result in restrictions on a Client's ability to sell a portfolio investment at a time when it might otherwise have done so. Any of these activities could prevent a Client from buying or selling securities or other interests in an issuer, potentially for an extended period.

## **Item 12      Brokerage Practices**

Brean has discretion to (i) buy or sell securities and investments, (ii) determine the amount of the securities and investments to be bought or sold, (iii) select the broker or dealer to be used in such purchase or sale, and (iv) agree to the commission rates paid in connection with such purchase or sale. Brean will ensure that it selects brokers on the basis of their ability to provide best execution by considering various factors which may include, and are not limited to, financial strength, reputation, price, commission, size of order, timeliness and certainty of execution, counterparty risk, and research. Investors in Private Funds may include entities affiliated with brokers or, possibly, brokerage firms themselves. The fact that any such investor has invested in a Private Fund managed by Brean will not be taken into consideration in selecting brokers (including prime brokers).

### **Research and Other Soft Dollar Benefits**

Although the commissions and transaction fees paid by Brean's Clients shall comply with the Brean's duty to obtain best execution, a Client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Brean determines, in good faith, that the commission or transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including execution capability, commission rates, and responsiveness. Accordingly, although Brean will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for Client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer are exclusive of, and in addition to, Brean's investment management fee.

In the event that a Client requests that Brean recommend a broker-dealer for custodial services (exclusive of those Clients that may direct Brean to use a specific broker-dealer), Brean may recommend certain broker-dealers. Prior to engaging Brean to provide investment management services, a Client will be required to enter into a formal investment management agreement setting forth the terms and conditions under Brean shall manage the Client's assets, and a separate custodial/clearing agreement with each designated broker-dealer. Relative to Brean's discretionary investment management services, when beneficial to the Client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, the Client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" and/or prime broker fee charged by the account custodian.

Brean does not enter into any soft dollar arrangements whereby it receives research or any other benefit, including other products or services, other than execution from broker-dealers or third parties.

### **Brokerage for Client Referrals**

Brean may receive referrals from various individuals and firms, including Brean Capital. While Brean does not compensate these broker-dealers based on referrals, Brean may be incentivized to use the services of a specific broker-dealer due to the broker-dealer's ability to raise capital for Brean. The respective broker-dealer and its affiliates generally receive fees/commissions as a result of Brean's decision to utilize its services as follows: custodian of Client accounts managed by Brean; securities transactions executed on behalf of Brean's Clients; and lending funds and securities to Brean as part of the Brean's investment strategy, i.e., margin/short sale and securities lending programs. While the relationship may present the appearance of a conflict of interest, the availability of the foregoing products and services to Brean is not

contingent upon Brean committing to the broker-dealers any specific amount of business (assets in custody or trading commissions).

To the extent that Brean provides investment management services to its Clients, the transactions for each Client account generally will be effected independently, unless Brean decides to purchase or sell the same securities for several Clients at approximately the same time. Brean may (but is not obligated to) combine or “bunch” such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Clients the differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Clients in proportion to the purchase and sale orders placed for each Client account on any given day. Brean shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Directed Brokerage**

Brean does not generally accept directed brokerage arrangements (when a Client requires that account transactions be effected through a specific broker-dealer). In such Client directed arrangements, the Client will negotiate terms and arrangements for their account with that broker-dealer, and Brean will not seek better execution services or prices from other broker-dealers or be able to “bunch” the Client's transactions for execution through other broker-dealers with orders for other accounts managed by Brean. As a result, the Client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. In the event that the Client directs Brean to effect securities transactions for the Client's accounts through a specific broker-dealer, the Client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the Client determined to effect account transactions through alternative clearing arrangements that may be available through Brean. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

Brean has established trade error correction policies and procedures, which provide for resolution of trade errors. Once discovered, trade errors must be reported to Brean's CCO as soon as possible. The CCO will determine the appropriate corrective action for a trade error. It is Brean's policy to resolve any trade error as soon as practicable. Brean is not responsible for a trade error caused by a third party, including a broker-dealer or custodian, unless otherwise expressly agreed to by Brean. Trades that are misallocated to the wrong Client account, and discovered prior to the settlement date, are reallocated to the originally intended Client account at the price of the original trade. Other trade errors discovered on the trade date or thereafter, are broken to the extent possible. If the executing broker cannot break the trade, the CCO will investigate the matter and determine an appropriate resolution in light of applicable exculpation, indemnification and standard of conduct provisions (if any) set forth in any governing documents. Trade errors are resolved on a case-by-case basis by the CCO.

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

Brean's CCO, in consultation with portfolio managers, conducts continuous portfolio monitoring of the Clients' portfolios, including trade reviews. In addition, ad hoc reviews of a Client account may be triggered by special circumstances (e.g., securities restriction, appropriate allocation). For the Private Funds, underlying investors receive quarterly account statements and audited annual financial statements.

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

When a Client is introduced to Brean by either an unaffiliated or an affiliated solicitor (i.e., Brean Capital), Brean will pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Brean's investment management fee, and shall not result in any additional charge to the Client. When a Client is introduced to Brean by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective Client with a copy of Brean's Form ADV Part 2A and a written disclosure statement disclosing the terms of the solicitation arrangement between Brean and the solicitor, including the compensation to be received by the solicitor from Brean.

Brean has entered into arrangements with third party placement agents, distributors, or others to solicit investors in the Private Funds and such arrangements will generally provide for the compensation of such persons for their services at Brean's expense.

Brean may introduce certain Clients and investors to Brean Capital. Brean and certain employees may receive a referral fee or commission for any such referrals.



## **Item 15        Custody**

Brean does not have custody with respect to the assets of the Clients. Brean does not take physical custody of Clients' assets, which will be provided by the custodians of the Partnership, Private Funds, and SMAs.

Brean requires its Clients designate a "qualified custodian." Clients receive statements at least quarterly from the broker-dealer, bank, or other qualified custodian that holds and maintains the Client's investment assets. Similarly, investors in the Partnership and Private Funds will receive monthly or quarterly account statements from the respective qualified custodian. Brean urges all Clients to carefully review and compare such custodial statements to any account statements that they may receive from Brean. Brean's statements may vary from custodial statements based on differences in accounting procedures, reporting dates, or valuation methodologies of certain securities.

All Private Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Private Fund's fiscal year end.

Brean has established policies and procedures for the timely return of any securities, funds, or other assets that are inadvertently received by Brean from a Client or third party.

## **Item 16          Investment Discretion**

Brean obtains discretionary authority from a Client at the outset of an advisory relationship, and may in the future obtain non-discretionary authority from a Client in the same manner. To the extent Brean has discretionary authority to select and manage securities to be bought or sold, such discretion is to be exercised in a manner consistent with the investment guidelines and investment restrictions stated in the subadvisory agreement, offering documents, and investment management agreement, as applicable, or written restrictions provided to Brean by the Client.

## **Item 17        Voting Client Securities**

The SEC adopted Rule 206(4)-6 under the Advisers Act, which requires registered investment advisers that exercise voting authority over Client securities to implement proxy voting policies. In compliance with such rules, Brean has adopted proxy voting policies and procedures. Brean is committed to voting proxies in a manner consistent with the best interest and objectives of the Clients as mandated by the subadvisory agreement, offering documents, and investment management agreement, as applicable. Brean determines whether or not to vote a proxy on a case-by-case basis, and will:

- Attempt to consider all aspects of the vote that could affect the value of the issuer or that of the Client;
- Vote in a manner that it believes is consistent with the Client's stated objectives and in the Client's best interest; and
- Generally, vote in accordance with the recommendation of the issuing company's management on routine and administrative matters, unless Brean has a particular reason to vote to the contrary.

Brean generally does not vote a proxy if it believes the proposal is adverse to the best interest of the Clients. Any potential conflict of interest regarding a proxy vote must be reported to the CCO who will assess on a case-by-case basis.

Brean may, from time to time, make a recommendation to a Client regarding whether to participate in any class action suits in which one or more of the Clients are eligible, based upon a reasonable assessment of the costs and benefits relating to such participation. Brean may recommend not to participate in a class action suit for any number of reasons, including, without limitation, if Brean determines that the anticipated out-of-pocket costs associated with any potential recovery are likely to exceed the amount of the potential recovery or if the Client account intends to pursue its legal rights outside of the class. Any proceeds from a class action suit will be allocated among the participating Clients and their underlying investors currently existing at the time of recovery of such proceeds.

Current Clients and investors may request a copy of Brean's full proxy voting policies and procedures and the voting records as provided by Rule 206(4)-6. Please contact Brean's CCO at (212) 702-6677 or [pm@breanam.com](mailto:pm@breanam.com).

## **Item 18        Financial Information**

Brean does not require or solicit the prepayment of any fees and does not have any adverse financial condition that is reasonably likely to impair Brean's ability to continuously meet its contractual commitments to its Clients. Brean has not been the subject of a bankruptcy proceeding.