

**Part 2A of Form ADV: Firm Brochure**

**Item 1 -  
Cover Page**

**Clarity Capital Investment Services Ltd.**

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This brochure provides information about the qualifications and business practices of Clarity Capital Investment Services Ltd. If you have any questions about the contents of this brochure, please contact Adi Birk, the Chief Compliance Officer, either by telephone at +972-3-777-9000 or by e-mail at [adi@claritycap.com](mailto:adi@claritycap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Clarity Capital Investment Services Ltd. is a registered investment adviser. Registration as an investment adviser reflects only that a firm has registered with the SEC and does not imply a certain level of skill or training.

**Additional information about Clarity Capital Investment Services Ltd. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2 - Material Changes**

There are no material changes to report as this is Clarity Capital Investment Services Ltd.'s initial Form ADV Part 2A.

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#### **Item 4 - Advisory Business**

Clarity Capital Investment Services Ltd. (“we,” “us” or “our”) is an Israeli limited company that was formed on August 7, 2019. We are 100% owned and controlled by Clarity Capital KCPS Ltd. (“Clarity KCPS”), another SEC-registered investment adviser. Clarity KCPS is majority-owned by its parent company, KCPS Clarity Capital Group Ltd., a limited company established under the laws of Israel (“KCPS Clarity Group”), which owns 90 % of the issued and outstanding equity interests of Clarity KCPS. Mr. Eran Peleg owns 8.7% of the issued and outstanding equity interests of Clarity KCPS.

We serve as general partner of, and provide discretionary investment advice to, Clarity Private Income Fund II (Cayman) LP (“CPIF”). We may also provide investment advice to additional private funds and separately managed accounts in the future. References throughout this document to “clients” refer to CPIF and any other private funds and separately managed accounts we may advise in the future, as applicable.

The investment objective of CPIF is to generate returns primarily by making investments in: (i) a diversified portfolio of investment funds, investment vehicles and other financial instruments managed by third-party advisers (which are not affiliated with us) that invest predominantly in private debt opportunities (the “Portfolio Funds”), and (ii) direct loans (together with the Portfolio Funds, the “Portfolio Investments”). CPIF offers two classes of units with multiple sub-classes, some of which are suitable for U.S. taxable investors and some of which are suitable for non-U.S. or U.S. tax exempt investors. Although these classes generally invest on a side-by-side basis, it is possible that their investments may differ for relevant legal, tax, regulatory or other considerations. (*See Item 10.*) Accordingly, the returns and profits for these classes may vary.

We do not tailor advisory services to individual or particular needs of investors in CPIF. We have broad investment authority with respect to CPIF. Since we do not provide individualized advice to CPIF investors, such investors are encouraged to consider whether the investment objectives of CPIF are in line with their individual objectives and risk tolerance prior to investment. (*See Item 16.*)

We do not participate in wrap fee programs.

As of December 31, 2019, we managed \$8,420,000 in regulatory assets on a discretionary basis. We do not manage any regulatory assets on a non-discretionary basis.

## **Item 5 - Fees and Compensation**

### Management Fee

CPIF will pay us a monthly management fee (the “Management Fee”), which ranges from 1/12<sup>th</sup> of 0.7% to 1/12<sup>th</sup> of 1.25% of the net asset value of the relevant sub-class. The Management Fee will be calculated as of the close of business on the last business day of the previous month and paid in arrears. All or part of the Management Fee applicable to any investor may be waived, reduced, rebated, discounted or calculated differently by us from time to time in our discretion without notice to, or the consent of, other investors, with respect to one or more investors, including affiliates and persons designated as our friends and/or insiders. No Management Fee will be paid for certain sub-classes of CPIF’s interests.

Further, Clarity KCPS, our related person, introduces or recommends CPIF to its clients if it determines that CPIF is suitable for their risk profiles and investment guidelines (see Item 10 below). Currently, we waive the Management Fee for such investors.

With our consent, CPIF may also pay all or a portion of the Management Fee to any third party, including, but not limited to, a third party (which may be an employee of an affiliate of ours) who refers investors to CPIF, performs other services for us and/or CPIF, or that is a strategic investor or partner in or with any of such entities. Part of the Management Fee may be shared with any third party in return for services rendered to us or CPIF, or that is a strategic investor or partner in any of such entities.

### Expenses

CPIF will pay, or will reimburse us and/or any affiliate of ours for, the costs and expenses incurred in connection with the organization of us and CPIF, including government charges and professional fees and expenses in connection with the incorporation and registration of CPIF and us, the preparation of CPIF’s offering memorandum, documents to be furnished by us to prospective investors, legal and accounting fees, travel and out-of-pocket expenses, expenses associated with the offering of CPIF’s units and fees of any placement agent relating to the solicitation of subscriptions (which placement fees may be paid to employees of our affiliates), expenses and fees related to our registration with SEC and any applicable U.S. state securities authority, printing costs, filing and other administration expenses in an aggregate amount of up to US\$100,000.

Additionally, CPIF will bear, or will reimburse us for, all management and operational expenses, including without limitation (i) all costs and expenses incurred by us or CPIF related to investment and divestment transactions of CPIF, including all of the costs and expenses directly related to proposed Portfolio

Investments which were not consummated, broken deal expenses, third-party research, sourcing and consulting and other expert fees and costs and any costs and expenses that are not capitalized as part of the cost of a Portfolio Investment or reimbursed by another party, due diligence expenses including, without limitation, consulting and appraisal fees, investment- and research-related travel expenses; (ii) all costs and expenses related to the hedging transactions employed by CPIF, if any, (iii) any franchise, withholding or transfer taxes imposed on CPIF or any of its investors, (iv) any governmental and regulatory fees imposed on CPIF, (v) any interest payable by CPIF, (vi) any legal fees and costs (including settlement costs) arising in connection with any litigation or regulatory investigation instituted against us or CPIF in our capacity as CPIF's general partner, the cost of settlements and indemnification expenses (including advances thereof); fees and expenses incurred in connection with any tax audit by any U.S. federal, state or local authority, including, without limitation, any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, restructuring, dissolution, winding-up or termination of CPIF, (vii) the fees and expenses of CPIF's counsel and compliance consultant in connection with advice directly relating to our activities on behalf of CPIF and its legal or regulatory affairs, (viii) fees of CPIF's administrator and/or the fees of any transfer agent and registrar, (ix) costs incurred in respect of the preparation, audit and distribution of annual and other reports and accounts (including tax returns and financial statements) and the annual valuation, (x) the costs of "directors and officers" liability insurance and of professional liability insurance for us, (xi) the costs of any outside appraisers, accountants, attorneys or other experts engaged by us in connection with a specific investment opportunity being evaluated on behalf of CPIF, (xi) fees and expenses related to compliance with applicable law and regulations in connection with CPIF's activities, including, without limitation, any governmental, regulatory, licensing, filing, reporting or registration expenses, fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filings pursuant to Automatic Exchange of Information or similar laws enacted in other jurisdictions, as well as any foreign tax regime registrations, tax filings and associated annual fees and expenses), any fees and expenses related to compliance with anti-money laundering laws and regulations applicable to CPIF, (xii) fees and expenses of third-party professionals and service providers related to the foregoing as well as (xiii) any other expenses directly related to CPIF's investment program.

When structuring and/or originating direct loans, our affiliates may charge certain fees and costs from CPIF, such fees will be set and calculated in a "fair" manner, consistent with then-prevailing market conditions. Such fees and costs may include the reimbursement of salaries of our affiliates' employees who perform certain services in connection with the structuring or origination of such direct loans.

In addition, we and our officers may receive directors' fees, consulting fees, monitoring fees, commitment fees, success fees, breakup fees or other remuneration (in cash or in-kind) (in each case, "Portfolio Asset Remuneration"). Half (50%) of any Portfolio Asset Remuneration actually received by the aforesaid from

any Portfolio Investment, excluding any reimbursement of expenses and net of taxes, transaction expenses and any other expenses incurred in the performance of such services which are not reimbursed by the Portfolio Investment, paid by CPIF to our affiliates (net of taxes and expenses) will be used to offset dollar-for-dollar the Management Fee payable by CPIF in the calendar month following the actual receipt of such Portfolio Asset Remuneration.

As noted herein, CPIF makes investments in Portfolio Funds. In addition to the fees and expenses described above, CPIF expects to generally be further subject to expenses, management fees and/or performance fees or allocations in respect of such Portfolio Funds, as those entities in turn pay such fees and expenses to their investment managers and other service providers.

Please refer to CPIF's offering memorandum or governing documents for a complete understanding of how management fees are calculated and deducted, as well as a discussion relating to the expenses chargeable to CPIF and its investors. The information contained herein is a summary only and is qualified in its entirety by such document.

The expenses that would be charged to separately managed accounts managed by us in the future would be determined on a case-by-case basis.

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

We do not receive a performance-based compensation from CPIF.



## **Item 7 - Types of Clients**

We provide investment advice to CPIF. Investors in CPIF are generally high net worth individuals, corporations, personal trusts, and IRA accounts that qualify as “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended) and “qualified clients” (as defined in Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”)). The minimum investment in CPIF is \$100,000 (or, if higher, the US\$ equivalent of 80,000 Cayman Islands dollars).

If we determine to require a minimum investment for any separately managed account that we manage in the future, we will make that determination on a case by case basis.

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

### Methods of Analysis and Investment Strategies Generally

The investment objective of CPIF is to generate returns primarily by making investments in Portfolio Funds and direct loans. We have formed an internal investment committee to CPIF, which makes all decisions with respect to investments and divestments of CPIF's assets according to CPIF's investment strategy.

The investment objective of CPIF is to attempt to capture excess return, with emphasis on current income, that we believe currently exists outside tradable bond markets, by providing investors access to areas of the investment universe that are not typically open to retail investors. CPIF intends to hold a pool of unaffiliated-third-party managed investment funds, investment vehicles and other financial instruments that pursue predominantly private debt opportunities, capitalizing on the high yield premiums the markets are currently paying for illiquidity. As noted above, subject to the investment guidelines set out in its offering documents, CPIF may also invest a portion of its assets in direct loans. We believe that CPIF will constitute a diversified pool of moderate-risk and relatively uncorrelated investments with attractive excess returns that can compensate for the lack of liquidity and hold-to-maturity nature of these investments.

The composition of CPIF's portfolio, including the selection of the Portfolio Funds in which CPIF will invest, is an iterative process combining both top-down asset allocation considerations and bottom-up fund and investment selection.

Through the asset-allocation process, we will seek to implement appropriate diversification by strategies and collateral type, geographic regions, number of funds and direct loans. The process also looks to balance these considerations with expected returns per strategy and fund in order to design a portfolio exhibiting an attractive risk/return profile.

*Investing in securities involves risk of loss that clients and investors should be prepared to bear.*

### Risk Factors

There is certain risk associated with an investment in CPIF, including the risk that the entire amount invested may be lost, and an investment in CPIF should only be made after consultation with independent qualified sources of investment and tax advice.

Among the risks involved in an investment in CPIF are the following:

#### General

There are no guarantees that any benefits or advantages to investors described in CPIF's offering memorandum will be available or accomplished, or that any historical successes of any entity or person identified therein will be repeated with respect to CPIF or will confer any benefits on CPIF or prospective investors. Prospective investors should be aware that an investment in CPIF entails substantial risks. There can be no assurance that CPIF will meet its investment objectives or otherwise be able to carry out its investment program successfully, and investors are exposed to the risk of losing their investment in CPIF in whole or a substantial portion thereof. CPIF will invest in a variety of Portfolio Funds and may invest in direct loans, although there is no assurance that any such Portfolio Investments will meet CPIF's investment objectives.

### Potential Loss of Investment

No guarantee or representation is made that the investment approach to be utilized on behalf of CPIF will be successful. There is a risk that an investment in CPIF will be lost entirely or in part. Investors should note that the value of their investment in units of CPIF and any income derived from them can go down as well as up and the value of an investor's investment may be subject to sudden and substantial falls. An investor may not be able to get back the amount invested and the loss on realization may be high and could result in a substantial or complete loss of the investment. In addition, an investor who redeems units of CPIF after a short period may not realize the amount originally invested as a result of sales and other charges made on the issue and/or redemption of such units. Investors should also be aware that there may be differences in the net asset value of CPIF's units for the purposes of purchases and redemptions thereof.

### Past Performance

There can be no assurance that CPIF will achieve its investment objective. The past performance of us, KCPS Clarity Group and/or any affiliate thereof cannot be construed as an indication of the future results of an investment in CPIF.

### Possible Indemnification Obligations

CPIF generally will be obligated to indemnify us, CPIF's administrator, their respective officers, employees, agents and consultants and possibly other parties under the various agreements entered into with such parties against any liability they or their respective affiliates may incur in connection with their relationship with CPIF, subject to minimum performance standards.

### Investment Approach Modification

We intend to implement the strategies described above and in CPIF's offering memorandum in accordance with CPIF's objectives. However, we reserve the right to amend CPIF's investment objectives and strategy under any circumstances which we decide warrant such changes to the investment objectives and/or to its implementation. In such circumstances, we will give investors prior notice of any such changes, so that investors who do not wish to persist with their investment under the new objectives or strategies may have an opportunity to redeem their units from CPIF prior to the new objectives/strategies being implemented. There can be no assurance that CPIF will achieve any or all of its investment objectives, either in whole or in part.

### Availability of Investment Strategies

The success of the investment activities of CPIF will depend on our ability to identify suitable investment opportunities. Identification and exploitation of investment strategies to be pursued by CPIF involves a considerable degree of uncertainty. No assurance can be given that we will be able to locate suitable investment opportunities in which to deploy all of CPIF's assets or to exploit opportunities in the securities markets while also complying with the investment strategy, investment guidelines and risk management policy set forth above.

The diversification of CPIF's positions and strategies may not always be significant and, even if significant, may not provide meaningful risk control, even though it may reduce CPIF's profit potential as a result of certain strategies being unprofitable while others are profitable.

## **RISKS RELATED TO PORTFOLIO FUNDS**

### Generally

Prospective investors should carefully consider the effect on CPIF of our strategy of allocating CPIF assets with Portfolio Funds. Two aspects of this investment strategy which will affect the success of CPIF are the increased cost and the risk of delegating control of CPIF assets to persons other than us. There is no ability to predict the investments the Portfolio Funds may select, or whether they will act in accordance with disclosure documents or descriptive materials furnished by them to us. This strategy also may significantly increase the fees and expenses payable by CPIF because the Portfolio Funds charge their own fees and expenses. These costs will be incurred by CPIF and borne by investors regardless of the profitability of CPIF's investments with the Portfolio Funds.

### Multi-Level Fees

CPIF pays and/or reimburses fees and expenses to us and other service providers. In addition, CPIF will indirectly incur similar fees and expenses in its capacity as an investor in the Portfolio Funds, which Portfolio Funds in turn pay similar fees to their investment managers and other service providers and incur substantial expenses in their operations. CPIF will pay such fees regardless of whether CPIF as a whole is profitable.

### Possibility of Misconduct by Portfolio Funds

Because CPIF will not have custody or control over the assets it invests in the Portfolio Funds, the manager of a Portfolio Fund could divert or abscond with the Portfolio Fund's assets, fail to follow its stated investment strategies, issue false reports or engage in other misconduct.

### Access to Information from Portfolio Funds

CPIF will receive periodic reports from Portfolio Funds at the same time as any other investor with such Portfolio Fund. We will request detailed information on a continuing basis from each Portfolio Fund regarding such Portfolio Fund's historical performance and investment strategies. However, we may not always be provided with detailed information regarding all the investments made by the Portfolio Funds because certain of this information may be considered proprietary information by the Portfolio Funds. This lack of access to information may make it more difficult for us to select, allocate among and evaluate the Portfolio Funds.

### Illiquidity of Portfolio Funds

While investors in CPIF have certain withdrawal rights, the Portfolio Funds may not permit withdrawals or make distributions at the same intervals. As a result, CPIF may be required to continue to hold its interest in a Portfolio Fund following a withdrawal request and the applicable notice period, until CPIF receives redemption or distribution payments from the Portfolio Fund.

## **RISKS RELATED TO CPIF'S STRATEGY**

### Concentration of Investments

Although it will be the policy of CPIF to diversify its investment portfolio, it is not required to do so except as provided herein and may at certain times hold relatively few investments in Portfolio Funds. Further, CPIF could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected.

In addition, a number of Portfolio Funds may have overlapping strategies and thus could accumulate large positions in the same or related instruments without our knowledge. Even if known, our ability to avoid such concentration would depend on CPIF's ability to reallocate its capital among existing or new Portfolio Funds, which might not be feasible for several months until withdrawals and contributions are permitted by the Portfolio Funds.

### Debt Instruments

Some issuers who seek investments from CPIF and the Portfolio Funds generally cannot receive capital from traditional institutional lenders such as banks, because such issuers are in a relatively weak, transitional, or negative cash flow posture. Given the circumstances of the issuers, there is a substantially heightened risk of business failure, inadequate management, bankruptcy, litigation, and fraud associated with these investments. CPIF and the Portfolio Funds invest in private companies, where the quality and

consistency of information about the issuer tends to be lower than with public companies, including, but not limited to, issuers without audited financials. In addition, CPIF and the Portfolio Funds may be solely or jointly responsible for the expense of servicing any debt in which it invests, including, if necessary, taking legal actions to foreclose on any security instrument securing the debt (e.g., the mortgage or, in the case of a mezzanine loan, the pledge). This may increase the risk and expense to CPIF and negatively affect its performance.

#### *Risk of Loans Generally*

There are various risks associated with investing in loans. To the extent such loans are secured by real estate, such investments are subject to the risks of real estate investments in general and to certain other risks unique to the loan market. To the extent that CPIF does not own the whole loan, it may not be able to take certain actions, including foreclosure actions, unless it receives the consent of a certain percentage of the other holders. In addition, similar to other fixed income investing, CPIF may invest in loans which are not protected by financial covenants or limitations on additional indebtedness, and such investments would present a greater risk. Certain loans that CPIF may acquire may have early repayment features and, to the extent that they are repaid prior to maturity, CPIF will be deprived of the benefits thereof. In addition, the market value of such loans is a function of current interest rates and maturity.

#### *Credit Risks*

As CPIF and the Portfolio Funds may invest in loans and other debt instruments or obligations secured by collateral, CPIF may be exposed to losses resulting from default and foreclosure of any such loans or interests in loans in which it has invested directly or indirectly through a Portfolio Fund. Therefore, the value of underlying collateral, the creditworthiness of borrowers and the priority of liens are each of great importance in determining the value of CPIF's investments. No guarantee can be made regarding the adequacy of the protection of CPIF's security in the Portfolio Funds or other debt instruments in which it invests. Moreover, in the event of foreclosure, CPIF or an affiliate thereof may assume direct ownership of any assets collateralizing such foreclosed loans. The liquidation proceeds upon the sale of such assets may not satisfy the entire outstanding balance of principal and interest on such foreclosed loans, resulting in a loss to CPIF.

#### *General Financing Risks*

Investments in loans of the nature contemplated by CPIF and/or Portfolio Funds are subject to various risks including, but not limited to (i) the creditworthiness of the borrower; (ii) the fair market value of any real estate or other collateral that may be securing the loan; (iii) the lien position of the loan; (iv) the true quality of loan documentation; (v) any potential borrower claims or counterclaims that may arise as a result of CPIF and /or the relevant Portfolio Fund seeking to enforce its rights as creditor; (vi) environmental

liabilities; (vii) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (viii) so-called lender-liability claims by the issuer of the obligations; (ix) limitations on the ability to enforce the rights of CPIF and /or the relevant Portfolio Fund with respect to participations; and (x) various other risks associated with being a lender, including borrower bankruptcy and regulatory compliance matters.

#### Lower Credit Quality and Subordinated Loans and Securities

CPIF's and the Portfolio Funds' investments may range from subordinated loans or securities to the equivalent of AAA senior loans or securities. CPIF and the Portfolio Funds are not required to sell any loans or securities if such instruments are subsequently downgraded by any rating agency. Furthermore, there is no limitation on CPIF's and the Portfolio Funds' ability to acquire subordinated loans or securities. Subordinated loans or securities bear a disproportionate share of any credit losses as compared to more "senior" loans or securities of the same issue or series, with the result that the default-related risks of the underlying mortgages or assets may be severely magnified. Accordingly, these loans or securities may experience significant price volatility with respect to a variety of market and non-market factors. Certain subordinated loans or securities absorb all losses from default before any other class of loans or securities is at risk, particularly if such loans or securities have been issued with (or, as a result of credit losses, are left with) little or no credit enhancement or equity. Such loans or securities therefore possess some of the attributes typically associated with equity investments.

#### Non-Recourse Loans

Certain of the loans in which CPIF and the Portfolio Funds will invest will be or should be considered non-recourse. If a borrower defaults on a non-recourse loan, only the property or other collateral securing such loan, and not the other assets of the borrower, is available to satisfy the debt. The borrower may have no material assets other than ownership of the related collateral. Even if certain of the loan documents permit recourse to the borrower or a guarantor, CPIF and the Portfolio Funds have not necessarily undertaken an evaluation of the financial condition of any of these persons and CPIF and the Portfolio Funds may not be able to ultimately collect the amount due.

#### Unsecured Debt Investments

CPIF and the Portfolio Funds may invest in unsecured debt. Unsecured debt is not secured by any collateral of the borrowers. The performance of such investments will be affected by general economic conditions. Changes in economic conditions may adversely affect the performance and market value of such investments. Such debt investments are susceptible to default risks. The repayment of unsecured debt is dependent upon the ability and willingness of the borrowers to repay; if the borrower defaults on an unsecured debt obligation, only net amounts, if any, recovered through collection efforts will be available with respect to that obligation.



## **RISKS RELATED TO REAL ESTATE RELATED CREDIT PRODUCTS**

Loans made or acquired by CPIF and the Portfolio Funds may be secured by real estate. Certain risks related to debt secured by real estate are set forth below.

### **General Real Estate Risks**

The value of loans made or purchased by CPIF and the Portfolio Funds that are secured by real estate assets may be detrimentally affected if the real estate collateral declines in value. Investments by CPIF and the Portfolio Funds that are exposed to real property values will be subject to the following risks that may affect the value of such real property: risks associated with the general economic climate, local real estate conditions, community conditions, population trends, local employment conditions, changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building), energy and supply shortages, various uninsured or uninsurable risks, terrorism, war, natural disasters, the ability of third parties to manage the real properties, changes in applicable laws and government regulations (including tax laws), potential environmental and other legal liabilities, general availability of financing and changes in interest rate levels, and fluctuation in value of property or equity taken as collateral for any loans made. Certain of these risks cannot be predicted with certainty or controlled by CPIF and the Portfolio Funds. If CPIF or a Portfolio Fund forecloses on loans or bonds secured by real property, CPIF and/or such Portfolio Fund will incur the burdens of ownership of real property, which include the payment of expenses and taxes to maintain such property and any improvements thereon, and ultimately disposing of such property.

### **Fraud**

Investments may involve structural, covenant and other contractual protections as determined appropriate under the circumstances. Of paramount concern in private debt investments is the possibility of material misrepresentation or omission on the part of a counterparty, such counterparty's affiliates or other credit support providers or breach of covenant by such parties. Such inaccuracy or incompleteness or breach of covenants may adversely affect the valuation of collateral underlying the investment or may adversely affect the ability of the Portfolio Fund to perfect or foreclose a lien on the collateral securing the investment or otherwise realize on the investment. Investments involve reliance upon the accuracy and completeness of representations made by the counterparties and the managers of the Portfolio Funds and related entities, but we cannot guarantee such accuracy or completeness. While we and/or the Portfolio Funds will conduct due diligence with respect to its counterparties and their collateral before investing, including, if applicable, obtaining third party valuation reports, and will seek to obtain appropriate monitoring rights, there can be no assurance that we or the Portfolio Funds will detect such fraud or inaccuracy or that the Portfolio Fund's investments will not be adversely affected by such fraud or inaccuracy.

## **RISKS RELATED TO CPIF'S STRUCTURE AND OPERATIONS**

### **Restrictions on Redemptions**

An investment in CPIF is suitable only for eligible investors, who have no need for immediate liquidity in their investment. A prospective investor should realize that if CPIF incurs substantial losses as a result of its trading and investing activities, it may have insufficient assets from which to pay redemption proceeds or may be restricted otherwise by Cayman Islands law from completing a redemption. CPIF's ability to liquidate its assets also depends on the ability of Portfolio Funds to redeem their assets and pay the redemption funds to CPIF. Sizeable redemptions by investors may have an adverse impact on the ability of CPIF to successfully conduct its business and activities. Redemptions of all or any of CPIF's units may be suspended or scaled back by CPIF in certain circumstances (as discussed in CPIF's offering memorandum).

GIVEN THE NATURE OF INVESTMENTS MADE BY CPIF, ITS ABILITY TO MEET THE LIQUIDITY NEEDS OF ITS INVESTORS MAY BE LIMITED. THEREFORE REDEMPTIONS WILL BE MADE TO THE EXTENT AVAILABLE CASH IS HELD BY CPIF, OR MAY BE OBTAINED BE IT IN DUE COURSE OF ITS OPERATIONS, AS DETERMINED BY US IN OUR SOLE DISCRETION.

### **Possible Effect of Redemption**

Significant redemptions from CPIF could require it to liquidate investments more rapidly than otherwise desirable to raise the necessary cash to fund the redemptions from CPIF and to achieve a market position appropriately reflecting a smaller equity. Reductions in CPIF's size could also limit our ability to diversify the investments of CPIF among multiple Portfolio Funds and direct loans.

### **CPIF's Right to Require Redemption**

Pursuant to its limited partnership agreement, CPIF has the right, for reasons outlined herein (including for no reason), to affect a compulsory redemption of all or any of its units. We intend to exercise discretion to compulsorily redeem any units which may have been acquired by investors in contravention of laws or regulations or otherwise where continued ownership, direct or beneficial, might have, in our sole and absolute discretion, adverse legal, regulatory, tax or pecuniary consequences or material administrative disadvantages to CPIF or its investors.

### **Restrictions on Transfer**

Investors should be fully aware of the restrictions on transfer of their units in CPIF. The units will not be registered under the securities laws of any jurisdiction and no secondary or other ready market for the units is expected to develop. No transfer of CPIF's units may be made without our prior approval, which may be withheld where the transfer would result in regulatory, pecuniary, legal, tax or material administrative disadvantage for CPIF or its investors as a whole. Subject to our discretion, investors may redeem their

units in CPIF (under ordinary circumstances) only as of any redemption day upon prior written notice and such right of redemption is subject to certain conditions and restrictions, all as provided herein. The value of the CPIF's units may change between the date redemption is requested and the effective redemption day.

#### *Redemption in Kind*

CPIF reserves the right in our sole and absolute discretion to effect part or all of any redemption payments in kind rather than in cash. (However, investors do not have any right to demand redemptions in kind.) In addition, there can be no assurance that CPIF or any Portfolio Fund will have sufficient cash to satisfy redemption requests, or that they will be able to liquidate investments at the time of such redemption requests at favorable prices. In such event, redeeming investors will receive assets (or part assets, part cash) with a value (calculated on the same basis as CPIF's net asset value), when aggregated with any cash portion of the redemption payment, equal to the redemption payment to which they are otherwise entitled. Such in kind redemption may consist of assets and/or securities for which there may not be a readily available public market and may have to be held by such investor for an indefinite period of time. Any such redemption in kind will not materially prejudice the interest of the remaining investors. The risk of loss and delay in liquidating these assets and/or securities will be borne by the investor, with the result that such investor may receive less cash than it would have received on the date of redemption. As a result, an investment in CPIF is suitable only for sophisticated investors.

#### *Investments of CPIF may be Illiquid*

A substantial portion of CPIF's portfolio is expected to consist of illiquid assets. We do not expect that CPIF's holdings in Portfolio Investments will be listed on any securities exchange or traded on the over-the-counter market. An investor must be prepared to bear the risks of holding any such assets

#### *General Economic and Financial Conditions*

The success of any investment activity is influenced by general economic and financial conditions that may affect the interest rates and the extent and timing of investor participation in the markets. Unexpected volatility, illiquidity, governmental action, currency devaluation or other events in the various global markets in which CPIF may directly or indirectly hold positions could impair its ability to carry out its business and could cause CPIF to incur substantial losses.

#### *Operational Risk*

CPIF will depend on the Portfolio Funds to develop the appropriate systems and procedures to control their operational risk. Operational risks arising from mistakes made in the confirmation and settlement of loans, from transactions not being properly booked, evaluated or accounted for or other similar disruption in the Portfolio Fund's operations may cause CPIF to suffer financial losses, the disruption of its business, liability

to third parties, regulatory intervention or damage to its reputation. Generally, we will not be liable to CPIF for losses incurred due to the occurrence of any such error.

#### Cybersecurity

Cybersecurity breaches involving us or our affiliates or service providers may cause disruptions and impact business operations, potentially resulting in financial losses to clients; impediments to trading; the inability of us, our affiliates and/or service providers to transact business; violations of applicable privacy and other laws; as well as the inadvertent release of confidential information.

#### Payment of Withdrawal Proceeds to Investors Based on Unaudited Data

Calculation and payment of an investors' redemption proceeds will generally be based on estimated and unaudited data. Accordingly, a withdrawing investor who wishes to withdraw the whole balance of its account prior to the year-end audit of CPIF, may be exposed to adjustments and revisions which will affect the accounts of the investors due to CPIF's year-end audit.

#### Status Following Redemption

After the date a unit of CPIF is redeemed, but before proceeds are paid, a redeeming investor is a creditor of CPIF. If the value of CPIF's assets diminish during that period, it is possible that it would not have sufficient assets to meet all of its obligations including the payment of all or a portion of amounts owed to redeeming investor. In the insolvency of CPIF such redeeming investors will rank behind all secured and other unsecured creditors of CPIF.

#### Cross Class Liability – No Legal Distinction between Different Classes of Units

CPIF has several classes of units and further classes may be created in the future. However, such classes are not segregated as a legal matter and all of the assets of CPIF may be available to meet all of the liabilities of CPIF, regardless of the separate class to which such assets or liabilities are attributable. In practice, cross class liability will usually only arise where any class becomes insolvent or exhausts its assets and is unable to meet all of its liabilities. In this case, all of the assets of CPIF attributable to the other classes may be applied to cover the liabilities of the insolvent class.

Given that some of the proceeds of certain classes of units of CPIF may be invested in certain types of assets while the proceeds of other classes will not be so invested, the assets of the certain classes may be exposed to the liabilities of other classes of units of CPIF respectively, and vice versa.

The different classes of CPIF's units and the assets and liabilities attributed to each class of units may be

found not legally segregated from one another such that the assets of CPIF, as a whole, may be required to be used in order to meet the liabilities of CPIF, regardless of the class of units to which such assets or liabilities are attributable. In furtherance of the above, given that some of the funds attributed to a certain class of CPIF's units may be invested in certain types of Portfolio Investments while the funds attributed to other classes will not be invested in such same Portfolio Investments, the assets attributed to certain classes may be exposed to the liabilities attributed to other classes of units of CPIF respectively, and vice versa.

*Differential Returns between the Different Class of Units and between Parallel Funds*

Because of structural, legal, regulatory, tax or other reasons, investors subscribing to different classes of CPIF's units or to parallel funds may receive unequal returns and profits.

**Item 9 - Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or our management.

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

As noted above, we are 100% owned and controlled by Clarity KCPS, another SEC-registered investment adviser. Clarity KCPS is majority-owned by its parent company, KCPS Clarity Group, which also has several other investment management subsidiaries, each of which is an affiliate of Clarity KCPS. Details regarding these entities are below.

### Affiliated Investment Advisers and Sponsors of Private Funds

#### *Clarity KCPS, CDAP and CDAP-GP Company, KCPS Capital*

We are affiliated (under common control and ownership) with the following investment advisory/private fund sponsor entities (collectively with us, the “KCPS Affiliates”):

- Clarity KCPS, an Israeli limited company based in Tel Aviv, Israel, provides investment management services to a variety of clients, including high net worth individuals and institutions through separate accounts. As noted above, Clarity KCPS is registered as an investment adviser with the SEC (SEC # 801-73767).
- KCPS Capital Management Ltd. (“KCPS Capital”), an Israeli limited company based in Tel-Aviv, Israel, provides investment management services to a variety of clients, including individuals and institutions. Additionally, KCPS Capital serves as the investment manager and general partner of private fund vehicles. KCPS Capital is registered as an investment adviser with the SEC (SEC #801-108918).
- Clarity Diversified Alternatives Portfolio Management Ltd. (“CDAP”), a Delaware corporation based in New York, New York, provides discretionary investment management services to private fund vehicles and also to individuals and institutions through separate accounts. CDAP is registered as an investment adviser with the SEC (SEC # 801-107107).
- Clarity Diversified Alternatives Portfolio Holdings LP, a Delaware limited partnership based in New York, New York, serves as the general partner of, and holds management shares of, private fund vehicles managed by CDAP.

We and CDAP pursue different strategies on behalf of our clients. In general, Clarity KCPS also pursues different strategies than the other KCPS Affiliates. To the extent that a client of Clarity KCPS wishes to pursue such a strategy, the client would typically gain access to such strategy by investing through a vehicle managed by CDAP, KCPS Capital or us, following an introduction or recommendation by Clarity KCPS (as described in more detail below).

KCPS Capital manages a private fund (the “KCPS Fund”) that pursues a strategy that has historically pursued a strategy that is, in some respects, similar to that of CPIF. The investment term for the KCPS Fund has expired and such fund is in the process of liquidating investments. As a result, the KCPS Fund may already hold certain investments that are made by CPIF and may liquidate such investments at a time when CPIF continues to hold them.

Some of our employees serve as dual officers, employees or investment committee members of one or more other KCPS Affiliates. In addition, a member of our Investment Committee is also the Chief Investment Officer of Clarity KCPS and a member of the investment committee for each of CDAP and KCPS Capital. When we and our related persons concurrently manage client accounts/investment products, and particularly when dual officers/employees/investment committee members are involved, this presents certain conflicts, as described below.

Management of client accounts by affiliated investment advisers could give rise to a variety of potential and actual conflicts of interest, including potential front-running in the same security, and potential sharing of material non-public information across affiliate investment managers. In addition, because the KCPS Affiliates perform investment advisory services for various clients, one KCPS Affiliate may give advice or take action in the performance of its duties with respect to its clients which differs from the advice given or action taken by another KCPS Affiliate with respect to its clients.

The KCPS Affiliates have taken a number of steps to mitigate these conflicts, including the following:

- The KCPS Affiliates have adopted and abide by the same Code of Ethics
- The KCPS Affiliates share the same Restricted List
- Each KCPS Affiliate is independently capitalized

In addition, each KCPS Affiliate has its own investment committee that is responsible for making investment decisions on behalf of the entity. Although certain investment committee members overlap between KCPS Affiliates, we believe that conflicts of interest associated with dual committee membership are mitigated because the investments pursued by each KCPS Affiliate are generally not appropriate for other KCPS Affiliates’ clients that are currently making new investments (see above regarding the KCPS Fund). In addition, the KCPS Affiliates do not share specific investment recommendations, and each has taken measures to segregate its portfolio management business activities from the other affiliates.

In providing advisory services to CPIF, we may enter into consultancy agreements with other KCPS Affiliates with respect to the provision of administration, research, analysis and monitoring services to us.



In addition, one or more KCPS Affiliates may recommend to their clients to invest in the same underlying funds of CPIF, as a result of such clients' needs and restrictions that will not allow them to invest through CPIF. We do not believe that these side-by-side investments in the same vehicles pose a conflict since KCPS Affiliates waive their respective fees for Clarity KCPS clients and we do not earn any additional benefits if a client invests through CPIF or KCPS Affiliates.

#### KCS Partners

We are also affiliated with KCS Partners L.P., an Israeli limited partnership, which serves as the general partner of private fund vehicles managed by KCPS PE Investment Management (2006) LTD (an exempt reporting adviser with the SEC). KCPS PE Investment Management (2006) LTD pursues an investment strategy which is different from any of KCPS Affiliates' investment strategies. In addition we do not have any holdings or economic interest in KCPS PE Investment Management (2006) LTD. Further, our employees do not devote meaningful time providing services to either of these entities. In light of the foregoing, we do not believe that our affiliation with KCS Partners L.P. poses an actual conflict of interest.

#### Administration Services

We provide bookkeeping and administration services to a high net worth individual and a small number of companies under the said individual control. One of those companies is an advisory client of an affiliate of us. Such services are being provided by our finance team and back office and do not entail any investment advisory services. We are paid a monthly fee for our services. These services do not involve a substantial part of our time.

#### Introductions and Recommendations by Affiliated Adviser

As noted above, Clarity KCPS introduces or recommends CPIF to its clients if it determines that CPIF is suitable for their risk profiles and investment guidelines. To mitigate conflicts of interest associated with such introductions/recommendations, Clarity KCPS: (i) is not compensated for these introductions, (ii) notifies its clients in writing about its affiliated relationship with CPIF and certain conflicts associated with such relationship, and (iii) requires them to acknowledge in writing that they are aware of such relationship and conflicts prior to making an investment in CPIF. In addition, Management Fees are waived for Clarity KCPS clients that invest through such an introduction.

#### Management of Multiple Accounts

The management by KCPS Affiliates of multiple pooled investment vehicles may result in conflicts of interests when we and our related persons allocate time and investment opportunities among our respective clients.

As noted above, the two classes of CPIF generally invest on a side-by-side basis in. It is possible, however, based on any relevant legal, tax, regulatory or other considerations, that in our sole discretion (i) both classes will not participate in every investment, (ii) investments may be allocated on a basis determined by us, (iii) a class may invest in an investment at a different time, and/or (iv) the manner in which investments are structured may vary between the classes. In allocating investment activities between CPIF's classes, it is our policy that both classes should be treated fairly and, to the extent possible, should receive equivalent treatment.

Subject to applicable law and the governing documents and/or offering memorandum of CPIF, we may effect transactions between CPIF's classes whereby one class will purchase securities from or sell securities to the other class (including a class in which we or our related persons may have a significant interest). This may be done for reasons including, without limitation: when a class crosses its investment guidelines with respect to a particular sector, region or security; to account for inflows and outflows of capital to and from the classes; when one class is overexposed to a particular security and we determine that the other class may benefit from additional exposure to such security; to correct misallocations of trades between the classes; or when we believe that such a transaction will otherwise have a beneficial effect for both classes. This may result in a conflict of interest because a potential transaction may result in benefits to one class that may be greater than the benefits to the other class. In order to mitigate such conflicts, we effect such transactions only when we believe that such transactions are in the best interests of both classes. Such transactions will generally be effected for cash consideration and no brokerage commission or transfer fee will be paid to us or our related persons in connection with any such transaction.

#### Principal Transactions

We do not engage in principal transactions. If we were to engage in a principal transaction in the future, we would only do so in compliance with the Advisers Act.

#### Affiliation with Broker Dealer

Two of our supervised persons are registered representatives of an unaffiliated broker-dealer.

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

### Code of Ethics Overview

We have adopted a Code of Ethics and Employee Investment Policy (the “Code of Ethics”) which is designed to ensure that we conduct our business in accordance with all applicable laws and regulations and in an ethical and professional manner. The Code of Ethics applies to all of our employees and the employees of the KCPS Affiliates. In addition, we recognize that we have a fiduciary duty to our clients, and that all of our employees must conduct their business on our behalf in a manner that enables us to fulfill this fiduciary duty.

Among other things, the Code of Ethics governs all personal securities transactions by our employees (as further described below), and addresses certain other conflicts of interest. Employees are provided with a copy of the Code of Ethics and are required to sign and acknowledge that they will comply with its provisions.

We will provide a copy of our Code of Ethics to any client or prospective client upon request.

### Participation or Interest in Client Transactions

We make available to qualified prospective investors the opportunity to invest in CPIF. Our related persons and our respective employees have personal investments in CPIF. In addition, we and our affiliates receive performance-based compensation from other vehicles managed by the KCPS Affiliates. As a result, we and the KCPS Affiliates may have a conflict of interest in allocating time and investment opportunities among our respective client accounts. As noted above, we believe this conflict is mitigated because the investments pursued by each KCPS Affiliate are generally not appropriate for other KCPS Affiliates’ clients that are currently making new investments (see above regarding the KCPS Fund).

### Personal Trading

Employees may not engage in personal securities transactions, except for certain permitted securities, as described in the Code of Ethics. Employee trading in certain permitted securities requires the written consent of our Chief Compliance Officer (the “CCO”) (and, in the case of the CCO, the prior written consent of our Chief Executive Officer). In addition, transactions in securities on our Restricted List are prohibited.

Additionally, employees are required to provide the CCO with periodic reporting relating to their trading activity and personal accounts.

## **Item 12 - Brokerage Practices**

### Selection of Brokers

To the extent that our clients trade in securities through any brokers, we will seek to obtain the best execution for their accounts, taking into account the following factors: price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility and the provision or payment (or the rebate to CPIF for payment) of the costs of property or services (e.g., certain custodial services, research services, news and quotation services, certain publications, analytical and trading software, and trading products and services).

Managers of the Portfolio Funds will select the broker-dealers, and other financial intermediaries for their trading and other accounts. Managers of Portfolio Funds may benefit from various "soft dollar" arrangements between such managers and financial intermediaries.

On a regular basis, our finance team reviews the commissions paid to brokers.

### Research and Other Soft Dollar Benefits

We do not currently have any formal soft dollar arrangements. If we determine to engage in soft dollar transactions, we intend to comply with the provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Notwithstanding the foregoing, in connection with client transactions, broker-dealers occasionally, as part of their bundled services, provide us with research and research-related services. These products and services would be made available to us on an unsolicited basis and without regard to transaction costs paid by our clients or the volume of business that we direct to counterparties. To our knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. We believe that the receipt of such bundled services complies with the safe harbor requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended.

### Aggregation

The aggregation or blocking of client transactions may allow an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients. When multiple classes of CPIF participate in the same trades, we will generally aggregate such trades, unless aggregation is not possible or not consistent with our duty to seek best execution. Each class will participate

at the average price for all of the transactions in the relevant security on a given business day, with transaction costs shared *pro rata* based on the respective participation in the transaction by each class.

#### Trade Errors

As a fiduciary, we have the responsibility to effect orders correctly, promptly, and in the best interests of our clients. In the event any error occurs in the handling of any client transactions, due to our actions, or inaction, or actions of others, we will assess each trade error on a case-by-case basis. We will reimburse CPIF for losses resulting from trade errors to the extent that we are required to do so under its governing documents.

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

### Portfolio Review

We review CPIF on an ongoing basis. In addition to our staff, we have an independent fund administrator for CPIF, which is responsible for back office procedures and reporting for CPIF.

### Reporting

We will furnish to CPIF's investors: (i) the balance of each investor's capital as of the end of each month, (ii) quarterly reports on the operations of CPIF, (ii) annual audited financial statements and (iii) annual tax information for the completion of income tax returns.

We may provide certain additional information to any investor or prospective investor in CPIF who requests such information. This information may be provided in response to questions and requests and in connection with due diligence meetings and other communications, but will not be distributed to other investors and prospective investors who do not request such information. Such information may affect a prospective investor's decision to invest in CPIF, and investors (which may include our personnel and affiliates) may be able to act on such additional information and withdraw their capital potentially at higher values than other investors. Any such withdrawals may result in reduced liquidity for other investors and, in order to meet larger or more frequent withdrawals, CPIF may need to maintain a greater amount of cash and cash-equivalent investments than it would otherwise maintain, which may reduce its overall performance. Each investor is responsible for asking such questions that it believes are necessary in order to make its own investment decisions, must decide for itself whether the limited information provided by us is sufficient for its needs, and must accept the foregoing risks.

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

We compensate external third-party marketers for introductions to potential non US investors or clients. Such third party marketers entitled to a percentage of management fees earned by us on referred assets. This fee is not borne by CPIF or any referred investor.

Employees of our related persons may receive a portion of fees charged by CPIF for investors that they introduce or refer to CPIF.

## **Item 15 - Custody**

For purposes of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”), we are deemed to have custody over CPIF assets. In accordance with the Custody Rule, a qualified custodian is not required to deliver quarterly account statements to CPIF or its investors as long as (i) CPIF is audited by an independent public accountant that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board, (ii) CPIF’s audited financial statements are prepared in accordance with U.S. generally accepted accounting principles, and (iii) we deliver such annual audited financial statements to investors within 180 days after the end of its fiscal year (if we are deemed to have custody over the assets of a pooled investment vehicle that does not invest in other funds in the future, such statements would be delivered within 120 days after its fiscal year end).



**Item 16 - Investment Discretion**

We have discretionary authority to manage investments on behalf of CPIF. The investors in CPIF generally may not place any limits on our authority beyond the limitations set forth in the governing documents and/or offering memorandum of CPIF.

### **Item 17 - Voting Client Securities**

To the extent that our clients trade in public securities, we will generally have voting discretion over securities held in their accounts. Clients are generally not able to direct their votes in a particular situation. We have adopted proxy voting policies and procedures, which are summarized below.

To the extent that we receive a proxy on behalf of a client, we will follow our proxy voting policy with respect to such proxy. The policy provides that we will act in the best interests of our clients in determining whether and how to vote on any proxy voting matter. The proxy voting policy includes voting guidelines, as well as guidelines to be followed if a material conflict arises between us and/or our employees and our clients to ensure any material conflict is resolved in the best interest of the relevant client.

Clients may obtain a copy of our proxy voting policy and information on how we voted by contacting the CCO.

**Item 18 - Financial Information**

We are not required to include our balance sheet for our most recent fiscal year with this Form ADV, Part 2A.

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

We are not a state-registered adviser.