

**FORM ADV PART 2A: FIRM BROCHURE**

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**May 29, 2020**

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THIS BROCHURE (THE “**BROCHURE**”) PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF PARPLUS PARTNERS LLC (“**PARPLUS PARTNERS**” OR THE “**ADVISER**”). IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (917) 261-4855. 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.

ADDITIONAL INFORMATION ABOUT PARPLUS PARTNERS LLC ALSO IS AVAILABLE ON THE SEC’S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).

PARPLUS PARTNERS IS A REGISTERED INVESTMENT ADVISER. REGISTRATION AS AN INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

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## **ITEM 2: MATERIAL CHANGES**

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Parplus Partners previously filed this Brochure on March 30, 2020. Since the previous filing, Parplus Partners has moved its principal place of business to 55 Fifth Avenue, 18<sup>th</sup> Floor, New York, New York 10003, as reflected on the cover page of this Brochure. There have been no other material changes to this Brochure.

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## ITEM 4: ADVISORY BUSINESS

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Parplus Partners is a Delaware limited liability company that was formed in 2016. Parplus Partners was formed to provide investment management services to U.S. and foreign investors and clients. Parplus Partners is wholly-owned and managed by Parplus Partners Holdings LP, which is principally owned by James W. Carney, Addison M. Sollog and Ronin Private Investments, LLC. Parplus Partners is affiliated with Parplus Management LLC (“**Parplus Management**”), a Delaware limited liability company, that serves as the manager or general partner to the private investment funds advised by Parplus Partners.

Parplus Partners is also registered as a commodity pool operator and commodity trading advisor with the Commodity Futures Trading Commission (the “**CFTC**”) under the Commodity Exchange Act, as amended, and is a member in good standing of the National Futures Association (the “**NFA**”).

Parplus Partners acts as an investment adviser to three private pooled investment vehicles, established as a Cayman Islands master-feeder structure (each a “Fund” and collectively, referred to herein as the “Parplus Equity Funds” or the “**Client**”<sup>1</sup>) and may advise other investment vehicles in the future.

Parplus Partners pursues its investment strategy through managing its Client. Parplus Partners has discretion with respect to the investment decisions made for the Client. The Adviser provides its services to the Client as described in the Parplus Equity Fund’s confidential offering memorandum and governing documents. The Adviser’s principal investment objective is to achieve consistent outperformance of the SPDR S&P 500 ETF Trust (the “**Benchmark**”).

The Adviser does not participate in wrap fee programs.

As of December 31, 2019, Parplus Partners managed approximately \$427,200,439 in Client assets under management on a discretionary basis.

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## ITEM 5: FEES AND COMPENSATION

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In lieu of paying Parplus Partners an asset-based management fee, each Fund will bear its allocable share of all operating and overhead expenses incurred by Parplus Partners and its affiliates (such expenses, “**Parplus Partners Overhead and IT Expenses**”), including salaries, bonuses and other compensation and benefits for their employees, principals, members, partners and consultants (except for salaries and bonuses paid to portfolio managers and traders); information and technology related expenses (e.g., fees, expenses and upgrade costs related to hardware, software development, API development, systems engineering, development and operation, development of analytical programs, risk management programs, trading tools, quote and order logic and management programs, hedging tools, connectivity, data and other similar items); and other overhead expenses (e.g., fees and expenses of preparing and submitting regulatory filings, compliance-related expenses, rent, utilities, office supplies, secretarial services and other similar items), together with any such expenses paid to Ronin Capital, LLC and/or its affiliates (collectively, “Ronin”) under the services agreement described below.

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<sup>1</sup> As a registered investment adviser, the Adviser owes a fiduciary duty to all of its clients. In 2006, the decision by the Court of Appeals for the D.C. Circuit in *Goldstein v. SEC*, 451 F.3d 873 (D.C. Cir. June 23, 2006), with respect to private funds, clarified that the “client” of an investment adviser to a private fund is the fund itself and not an investor in the fund.

Parplus Partners and Ronin have entered into a services agreement pursuant to which Ronin may provide certain information technology and back office services to Parplus Partners, Parplus Management and the Parplus Equity Funds, which specific services may be agreed upon from time to time. Such services may include (but are not limited to) advice and assistance concerning the operations and administration of Parplus Partners, as needed from time to time, including assisting Parplus Partners in the maintenance of books and records and establishing and administering risk management and compliance policies.

In addition, Parplus Management receives a performance-based fee as described below in Item 6 *“Performance- Based Fees and Side-by-Side Management.”*

**Other Fees and Expenses.** Each Fund will incur other expenses in connection with its operations, in addition to any fees payable to Parplus Partners, including transaction fees, brokerage commissions, custody fees and other related costs and expenses that will be incurred by the Parplus Equity Funds with respect to the transactions for their account.

Each Fund has incurred legal and organizational expenses in connection with its formation and offering, which will be borne by each Fund (and, therefore, indirectly by its investors). In addition, each Fund will also bear ongoing operating expenses, which may include, without limitation, legal, bookkeeping, accounting, auditing, recordkeeping, administration, computer and clerical expenses (including expenses incurred in preparing reports and tax information for regulatory authorities and expenses for specialized administrative services); taxes; filing fees; the costs of any future restructuring of such fund and/or updates to such fund’s organizational and offering documents; printing and duplication expenses; investment-related travel expenses, investment research expenses, market data, newswire and data processing expenses; software and connectivity charges; each Fund’s allocable share of Parplus Partners Overhead and IT Expenses; brokerage commissions, bank charges, custody fees and borrowing costs; exchange, board of trade or other trading or execution facility membership or participation expenses; reasonable costs of attending directors’ meetings; annual registration fees; directors’ fees; directors’ and officers’ liability insurance; fees and expenses of preparing and submitting regulatory filings and other compliance-related expenses; and such other expenses necessary to perform the operation of such fund. Each Fund will also be responsible for any applicable extraordinary expenses of such fund (including taxes, indemnification costs, litigation costs, trade errors or damages). The Parplus Equity Funds will also bear the investment management or other fees charged by any mutual funds, exchange traded funds (“ETFs”) or collective investment vehicles in which they may invest, as disclosed in the prospectus for the applicable Fund.

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## ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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As compensation for its management of the Parplus Equity Funds, Parplus Management, an affiliate of Parplus Partners, will be entitled to receive a performance-based fee or allocation from the Parplus Equity Funds. Generally, such compensation will be equal to approximately 33% of the outperformance (if any) of each investor's interest in the applicable Fund over the Benchmark during the applicable measurement period, subject to a make-up for any prior periods of underperformance of the Benchmark (the **"Incentive Allocation"**). The Incentive Allocation generally is calculated as of the last business day of each calendar year or upon withdrawal by an investor of all or part of its investment in the applicable Parplus Equity Fund. The specific payment and calculation terms for the Incentive Allocation are set out in greater detail in the offering documents for the applicable fund. Parplus Management may, in its sole discretion, reduce, waive or rebate the Incentive Allocation with respect to any Parplus Partner Fund investor, including, without limitation, affiliates of Parplus Partners. Further, Parplus Management may assign its right to receive all or any portion of its Incentive Allocation to any affiliate or third party.

**Conflicts of Interest Related to Performance-Based Compensation.** A significant percentage of the appreciation (if any) which would otherwise be allocated to the investors in each Fund is paid to Parplus Management. This performance-based compensation is based upon unrealized, as well as realized, gains, and such unrealized gains may never be recognized by the investor; therefore, the Incentive Allocation may be greater than if it were based solely on realized gains. Performance-based compensation payable to its affiliate, Parplus Management, may create an incentive for Parplus Partners to make investments that are riskier or more speculative than it might otherwise select.

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## ITEM 7: TYPES OF CLIENTS

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Currently, Parplus Partners provides investment advice solely to the private investment funds operated by Parplus Partners and its affiliates. Parplus Partners operates the Parplus Equity Funds in reliance upon the exclusion from the definition of an “investment company” described in Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “1940 Act”). In order to qualify for this exclusion, investment in such Parplus Equity Funds is generally limited to U.S. persons who are “qualified purchasers,” as defined in Section 2(a)(51) of the 1940 Act, as well non-U.S. investors and “knowledgeable employees,” as defined in Rule 3c-5 under the 1940 Act. In general, the definition of “qualified purchaser” includes individuals with \$5,000,000 or more in “investments” (as defined by the SEC) and entities with \$25,000,000 or more in “investments,” as well as certain other specified categories of entities.

In the future, Parplus Partners may determine to offer investment advisory services to various types of clients, including, but not limited to, high-net worth individuals, trusts and estates, institutional investors, corporations, other private funds operated by Parplus Partners or other third parties, registered investment companies and other business entities.

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

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The Parplus Equity Funds’ principal investment objective is to achieve consistent outperformance of the SPDR® S&P 500® ETF Trust (the “Benchmark”). Parplus Partners seeks to provide investors with S&P 500® Index like returns during rallying market periods, and augment portfolio return with certain alternative investment strategies (as described below) that are intended to outperform during periods of volatility and declining markets. Parplus Partners will attempt to achieve this investment objective by: (i) maintaining an 100% long diversified equity portfolio composed of ETF shares in the SPDR® S&P 500® ETF Trust, a basket of component stocks of the S&P 500® Index and/or such other investment exposure that will yield broad-based market returns resembling that of the S&P 500® Index; and (ii) generally using the long equity positions as collateral, pursuing a wide range of alternative investment strategies to attempt to generate additional portfolio return. Such alternative investment strategies employed by Parplus Partners may include, without limitation, relative value and arbitrage (e.g., market neutral, volatility arbitrage, statistical arbitrage, convertible arbitrage, fixed income arbitrage, etc.), event driven (e.g., merger or risk arbitrage, special situations, distressed securities, etc.), global macro (e.g., global events, emerging markets, etc.), long/short equity (hedged equity, unhedged equity, short selling, value focused, etc.), managed futures and other commodities related trading strategies.

### **Certain Risk Factors.**

*Trading is Speculative and Volatile.* Financial instrument prices may be highly volatile. Price movements of financial instruments in which the Parplus Equity Funds’ assets are invested are influenced by, among other things, changing supply and demand relationships, weather, agricultural, trade, fiscal, monetary, and exchange control programs and policies of governments, U.S. and foreign political and economic events and policies, changes in national and international interest rates and rates of inflation, currency devaluations and revaluations, and sentiments of the marketplace. No assurance can be given that the Parplus Equity Funds will be profitable or that it will not incur substantial losses.

*Market Dislocation, Illiquidity and Volatility.* Significant dislocations, illiquidity and volatility in the global financial markets have occurred in the past several years (and may occur once again), which had an

adverse effect on market liquidity and caused significant market disruption. To the extent that such marketplace events occur again, they may have an adverse impact on the availability of credit to businesses generally and lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect certain of the Parplus Equity Funds' investments to greater or lesser extents. Such marketplace events also may restrict the ability of the Fund to sell or liquidate investments at favorable times or for favorable prices (although such marketplace events may not foreclose the Parplus Equity Funds' ability to hold such investments until maturity).

The Parplus Equity Funds may be adversely affected by a decrease in market liquidity for certain of the financial instruments that it trades (which could impair the Adviser's ability to adjust the Parplus Equity Funds' positions, balance sheets and risk in response to trading losses or other adverse developments). Illiquid investments may have to be held for lengthy periods of time and may have no readily ascertainable market value. As a result, such financial instruments may take more time and expense to value and/or sell, and the realizable price upon a disposition of such financial instruments may differ materially from their fair value. The illiquidity of positions held by the Parplus Equity Funds could cause the Parplus Equity Funds to suspend calculation of Net Asset Values or to suspend withdrawals. In addition, some or all of the Parplus Equity Funds' illiquid investments may be deemed Designated Investments, which could require certain investors to maintain an interest in such investments for an extended period. The size of the Parplus Equity Funds' positions may magnify the effect of a decrease in market liquidity for the financial instruments it trades. As in the past, changes in the overall market leverage (e.g., deleveraging or liquidations by other market participants of the same or similar positions) also may adversely affect the Parplus Equity Funds' positions.

*Market Inactivity.* At various times the market volumes for the financial instruments in which the Parplus Equity Funds trades may be low by historical standards, thereby reducing the availability of profitable trading opportunities and, therefore, adversely affect the Parplus Equity Funds' profit opportunities, reducing its revenues and the rate of growth of its capital. Among other things, it may be more difficult for traders and trading systems to identify and take advantage of market trends or mispricings when market volumes are reduced.

*Leverage.* The low margin and collateral deposits required to trade certain financial instruments may permit an extremely high degree of leverage. In addition, the Parplus Equity Funds may utilize bank and/or broker-provided financing in order to increase the capital available for investment. The degree of leverage that the Fund may utilize is not limited to any predetermined level, but will be subject to applicable legal, bank or broker imposed leverage limitations. The amount of borrowings the Parplus Equity Funds may have outstanding at any time may be large in relation to its capital. Consequently, the level of interest rates, generally, and the rates at which the Parplus Equity Funds can borrow, in particular, will affect the operating results of the Parplus Equity Funds.

As a result of trading with a high degree of leverage, a relatively small price movement in a financial instrument may result in immediate and substantial losses to the Parplus Equity Funds. Thus, like other leveraged investments, any trade may result in losses in excess of the amount invested. The Parplus Equity Funds may lose more than its initial margin deposit on a trade. In addition, if the Parplus Equity Funds are in a leveraged position, any losses would be more pronounced than if leverage were not used and, under particularly adverse circumstances, could exceed its capital.

*Financing Arrangements; Availability of Credit.* There can be no assurance that the Parplus Equity Funds will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the entities that provide financing to the Parplus Equity Funds can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes in such financing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced



liquidation of positions at disadvantageous prices, and cross-defaults to agreements with other entities. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Parplus Equity Funds to liquidate all or part of its portfolio at disadvantageous prices.

*Trading on Non-U.S. Exchanges.* The Parplus Equity Funds may engage in trading on exchanges outside the United States. Trading on such exchanges is not regulated by any United States governmental agency and may involve certain risks not applicable to trading on U.S. exchanges. For example, some foreign exchanges are “principals markets” in which performance is the responsibility only of the individual member with whom the trader has entered into a trade and not of an exchange or clearing organization. Moreover, such trading may be subject to whatever regulatory provisions are applicable to transactions effected outside the United States, whether on foreign exchanges or otherwise. Trading on foreign exchanges involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls, or political or diplomatic events that might adversely affect the Parplus Equity Funds’ trading activities. The risks of investing in non-U.S. securities and other financial instruments may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets and higher brokerage commissions and custody fees. Furthermore, foreign trading is also subject to the risk of changes in the exchange rate between United States dollars and the currencies in which financial instruments traded on such exchanges are settled. Some foreign futures exchanges require margin for open positions to be converted to the “home currency” of the contract. Additionally, some brokerage firms have imposed this requirement for all foreign futures markets traded, whether or not it is required by a particular exchange. Whenever margin is held in a foreign currency, the Parplus Equity Funds are exposed to potential gains or losses if exchange rates fluctuate.

*Currency and Exchange Rate Risks.* The Parplus Equity Funds may invest in financial instruments denominated in currencies other than the U.S. Dollar. The Parplus Equity Funds’ investments that are denominated in currencies other than the U.S. Dollar are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Changes in foreign currency exchange rates may also affect the value of interest earned, gains and losses realized on the sale of financial instruments and net investment income and gains, if any, of the Parplus Equity Funds.

*Effectiveness of Risk Reduction Techniques.* The Adviser may employ various risk reduction strategies designed to minimize the risk of the Parplus Equity Funds’ trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement and when possible will not always be effective in limiting losses. If the Adviser analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with the Parplus Equity Funds’ investments, such risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. These risk reduction techniques may also increase the volatility of the Parplus Equity Funds and/or result in a loss if the counterparty to the transaction does not perform as promised.

*Cyber Security Risk.* With the increased use of the Internet and because information technology (“IT”) systems and digital data underlie most of the Parplus Equity Funds’ operations, the Parplus Equity Funds, the Adviser, and the Parplus Equity Funds’ service providers and vendors (collectively “**Service Providers**”) are exposed to the risk that their operations and data may be compromised as a result of internal and external cyber-failures, breaches or attacks (“**Cyber Risk**”). This could occur as a result of malicious or criminal cyber-attacks. Cyber-attacks include actions taken to: (i) steal or corrupt data maintained online or digitally, (ii) gain unauthorized access to or release confidential information, (iii) shut

down the Service Provider web site through denial-of-service attacks, or (iv) otherwise disrupt normal business operations. However, events arising from human error, faulty or inadequately implemented policies and procedures or other systems failures unrelated to any external cyber-threat may have effects similar to those caused by deliberate cyber-attacks.

Successful cyber-attacks or other cyber-failures or events affecting the Parplus Equity Funds, the Adviser or the Service Providers may adversely impact the Fund or its investors or cause an investment in the Parplus Equity Funds to lose value. For instance, such attacks, failures or other events may interfere with the processing of subscriptions and withdrawals, impact the Parplus Equity Funds' ability to calculate its Net Asset Value, cause the release of private investor information or confidential the Parplus Equity Funds' information, impede trading, or cause reputational damage. Such attacks, failures or other events could also subject the Parplus Equity Funds or its Service Providers to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. Insurance protection and contractual indemnification provisions may be insufficient to cover these losses. The Parplus Equity Funds or its Service Providers may also incur significant costs to manage and control Cyber Risk. While the Parplus Equity Funds and its Service Providers have established IT and data security programs and have in place business continuity plans and other systems designed to prevent losses and mitigate Cyber Risk (as described in more detail below), there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified or that cyber-attacks may be highly sophisticated.

Cyber Risk is also present for issuers of securities or other instruments in which the Parplus Equity Funds invest, which could result in material adverse consequences for such issuers, and may cause an investment in such issuers to lose value.

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

*Limited Operating History.* The Parplus Equity Funds have only a limited operating history. The past performance of the Fund, the Adviser, its affiliates, any of their key personnel, or other investment vehicles managed by any of them is not indicative of the future results of an investment in the Fund. There can be no assurance that the Fund will achieve its investment objective, and the value of an investment in the Fund could decline substantially.

*General Risks of Arbitrage Transactions.* The success of Parplus Partners' arbitrage strategies depends often on the ability to execute two or more simultaneous transactions at desired prices. Should such transactions not be executed simultaneously at the desired prices, losses may be incurred on both sides of the transaction. Additionally, separate costs are incurred on both sides of an arbitrage transaction, and substantial favorable price moves may be required before a profit can be realized. There can be no assurances that the hedging and arbitrage strategies employed by Parplus Partners will be successful. The market values of related financial instruments may not move in correlation with each other or in ways

anticipated by Parplus Partners, and intervening events may cause hedged positions not to perform as anticipated.

*Relative Value Strategies.* The success of Parplus Partners' relative value strategies is dependent on Parplus Partners' ability to identify and design an appropriate investment process to capitalize on relative mispricings among interrelated financial instruments. In the event that the perceived mispricings underlying the trading positions were to fail to converge toward, or were to diverge further from, Parplus Partners' expectations, a client employing such strategies may incur a loss. In implementing relative value strategies, Parplus Partners will seek to reduce exposure to the risk of overall market price movements, but a client employing such strategies will be fully exposed to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of Parplus Partners' valuation models.

*Market Neutral Strategies.* The use of any "market neutral" or "relative value" hedging or arbitrage strategies should in no respect be taken to imply that Parplus Partners' strategies are without risk. Substantial losses may be recognized on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position can effectively result in the position being transformed into an outright speculation. Every market neutral or relative value strategy involves exposure to some second order risk of the market, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term government bonds or the price spread between different classes of stock for the same underlying issuer. Further, Parplus Partners' "market neutral" strategy may employ limited directional strategies that expose clients to certain market risks.

*Volatility Arbitrage Trading.* The Adviser may pursue a volatility arbitrage trading strategy that seeks to capitalize on the movement of prices, regardless of direction. Volatility arbitrage involves both purchases and sales (writing) of options, futures and other derivatives, as well as purchases and short selling of their underlying securities. In that scenario, the Adviser would attempt to exploit differences between the forecasted future volatility of the underlying security and the implied volatility of derivatives based on such underlying security.

*Statistical Arbitrage.* The Adviser may use an investment approach that involves buying "long" a security, or a basket of securities, that is cheap relative to its historic price and selling "short" a related security, or related basket of securities, that is expensive relative to its historic price in anticipation of profiting as the prices of the securities or baskets of securities return to their historic prices. Portfolios tend to be highly liquid, highly diversified, and highly risk controlled, and tend to have very high turnover.

*Reliance on Fundamental Analysis.* Parplus Partners bases its trading decisions, in whole or in part, on fundamental analysis. Fundamental analysis considers financial instrument-specific factors, including, without limitation, country gross domestic product, monetary policy, inflation expectations, trade balances and geopolitical metrics. Parplus Partners' operating belief is that price converges to fundamental value over time, but that price can differ significantly from fundamental value for a variety of temporary reasons. It is this discrepancy Parplus Partners strives to exploit. Parplus Partners' fundamental analysis may be flawed in that it identifies what turns out to be the wrong opportunities and/or its assessment of fundamental value turns out to be incorrect in that the financial instrument does not converge to that valuation. There can be no guarantee that Parplus Partners' fundamental analysis will enable Parplus Partners to accurately value the financial instruments in which a client invests or that any anticipated price trends will materialize with respect to such investments.

*Algorithmic Trading.* Parplus Partners may use "algorithmic" trading strategies or systems. Algorithmic trading is generally accomplished through the use of computer algorithms and systems to make trading decisions automatically, submit orders and manage those orders after submission, generally without human intervention (except as necessary for purposes of monitoring and controlling portfolio risk and

managing investments during periods of significant market disruption and stress or similar purposes). Parplus Partners' algorithmic trading activities, including risk management, depend on the integrity and performance of the hardware, software and communications systems supporting them. Extraordinary transaction volume, hardware or software failure, programming defects or flaws, power or telecommunications failure or a natural disaster could cause Parplus Partners' computer systems to operate at an unacceptably slow speed or even fail. Any significant degradation or failure of the systems that Parplus Partners uses to gather and analyze information, enter transaction orders, process data, monitor risk levels and for other purposes may result in substantial losses on transactions, liability to other parties, lost profit opportunities, increased operational expenses and/or diversion of technical resources. These factors could have a material adverse effect on performance.

*Dependence on Underlying Intellectual Property.* The success of Parplus Partners' investment strategy is in part dependent upon the validity of the intellectual property utilized by Parplus Partners in the conduct of its business, including in respect of proprietary trading algorithms and any other analytical tools upon which Parplus Partners' trading activities are predicated. Parplus Partners may fail to maintain or may modify such intellectual property. In any event, third parties may in the future obtain and use, without Parplus Partners' permission, any intellectual property or technology Parplus Partners creates or develops. Any unauthorized use thereof could adversely affect any competitive advantage Parplus Partners may have as a result of such intellectual property or technology. Also, third parties may independently develop proprietary intellectual property and technology similar to Parplus Partners' proprietary intellectual property or technology or claim Parplus Partners or a client has violated their intellectual property rights, including copyrights, trademark rights, tradenames, trade secrets and patent rights. Any failure by Parplus Partners to maintain its current intellectual property, any unauthorized use of Parplus Partners' intellectual property or technology, and any litigation (even if Parplus Partners or the relevant Fund is successful and regardless of the merits), may result in significant costs, divert Parplus Partners' resources, or require Parplus Partners to modify its intellectual property or technology in an adverse manner.

*Tracking the Benchmark.* Each Parplus Equity Fund's investment program is designed to provide exposure to the Benchmark and to seek an investment return in excess of the Benchmark's return. Achieving such an objective depends upon subjective judgments. Incorrect judgments by Parplus Partners could result in each Parplus Equity Fund's not achieving its investment objective. Even if each Parplus Equity Fund is successful in tracking the Benchmark in accordance with its investment objective, it may lose capital because the Benchmark has lost value.

*Long Bias.* Each Parplus Equity Fund expects to maintain a long bias in its portfolio. In contrast, some alternative investment funds try to stay "market neutral," meaning that they have neither a long nor a short bias, and as such, they attempt to avoid generalized swings in the trajectory of the equity markets in either direction (up or down). Given each Parplus Equity Fund's long bias, it will be more exposed to losses than a market neutral fund would be in times of general market downturns and declining prices of equity securities.

*Short-Term Technical Strategies.* Parplus Partners may use short-term strategies that include elements of technical analysis. The trading decisions of Parplus Partners based on these strategies will seek to take into account certain "technical" factors in identifying price trends and price movements. The buy and sell signals generated by technical trading system are not based on analysis of fundamental supply and demand factors, general economic factors or anticipated world events but generally upon a study of actual daily, weekly and monthly price fluctuations, volume variations and changes in open interest. The profitability of any technical trading strategy depends upon occurrence in the future of major price moves or trends in the instruments traded. In the past, there have been periods without discernible trends and presumably similar periods will occur in the future. Any factor that may lessen the prospect of major trends in the future (for example, increased governmental control of, or participation in, the markets) may reduce the prospect that technical trading strategies will be profitable. Any factor that would make it

more difficult to execute trades at a technical trading system's signal prices, such as a significant lessening of liquidity in a particular market, also would be detrimental to profitability.

*Long/Short Equity Strategies.* Parplus Partners may employ long/short equity strategies on behalf of its clients. Because a long/short equity strategy involves identifying securities which are generally undervalued (or, in the case of short positions, overvalued) by the marketplace, success of this strategy necessarily depends upon the market eventually recognizing such value in the price of the security, which may not necessarily occur or may occur over extended time frames which limit profitability. Positions may undergo significant short-term declines and experience considerable price volatility during these periods. In addition, long and short positions may or may not be correlated to each other. If the long and short positions are not correlated, it is possible to have investment losses in both the long and short sides of the portfolio.

*Investments in Undervalued Equity and Equity-Related Securities.* Parplus Partners may invest on behalf of its clients in undervalued equity and equity-related securities. The identification of investment opportunities in undervalued securities is a difficult task. While investments in undervalued securities may offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from such investments may not adequately compensate clients for the business and financial risks assumed. Parplus Partners may take certain speculative investments in securities which it believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the client's assets may be committed to the securities purchased, thus possibly preventing Parplus Partners from investing in other opportunities on such client's behalf. In addition, clients, like the Parplus Equity Funds, may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period. If clients take long positions in stocks that decline and short positions in stocks that increase in value, then the client's losses may exceed those of other portfolios that hold long positions only.

*Event-Driven Strategies.* The success of Parplus Partners' event-driven investment strategies depends upon its ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a portfolio company's securities. If such event fails to occur or it does not have the effect foreseen, clients may suffer substantial losses. For example, a company may announce a plan of restructuring that promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the client of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; intervention of a federal or state regulatory agency; efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; in the case of a merger, failure to obtain the necessary stockholder approvals; market conditions resulting in material changes in securities prices; compliance with any applicable federal or state securities laws; and inability to obtain adequate financing.

*Special Situation Investments/Distressed Companies.* Certain of Parplus Partners' investments for its clients may involve start-up companies, companies developing new products or companies seeking to raise additional capital for expansion. In addition, clients may invest in companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns, they involve a substantial degree of risk. Any one or all of the issuers of the financial instruments in which clients may invest, directly or indirectly, may be unsuccessful or not show any return for a

considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Parplus Partners will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which Parplus Partners invests, clients may lose their entire investment or may be required to accept cash or financial instruments with a value less than their original investment.

*Convertible Arbitrage Strategies.* In an effort to remain market neutral with respect to purchase of convertible financial instruments for client accounts, Parplus Partners may hedge the purchase of convertible financial instruments by the simultaneous short sale of another related financial instrument (e.g., the short sale of some portion of the common stock into which the financial instruments on the long side are convertible or the sale of the related option). Losses also may be incurred if the prices of two financial instruments which are arbitrated against each other do not move as expected.

*Equity Securities.* ETFs are funds or unit investment trusts that hold portfolios of common stocks or bonds, which are designed to generally correspond to the price and yield performance of their underlying indexes, either broad stock market, stock industry sector, international stock or U.S. bond. In this manner, ETFs are similar to open-ended index mutual funds. However, ETFs are traded like stocks on stock exchanges. The Parplus Equity Funds are intended to invest a substantial portion of their assets in the SPDR® S&P 500® ETF Trust, which is an ETF that seeks to provide investment results that correspond generally to the price and yield performance of the S&P 500® Index.

Although investments in mutual funds and ETFs are subject to similar risks, ETFs have certain unique risks not shared by mutual funds. Some of the risks of investments in ETFs include the following:

- (i) General Risks – An investment in ETFs comprised of publicly traded stocks are subject to the risks that impact the portfolio of underlying stock, including market risks resulting from such factors as economic and political developments, changes in interest rates and perceived trends in stock prices. In addition, investment techniques such as short selling and margin debt may be used with ETFs, which would expose the Parplus Equity Funds to the risks associated with those investment techniques.
- (ii) ETF Trading – It is possible for the value of ETFs to fall or to rise more slowly than the stock market as a whole even when stock prices in general are rising. Risk is also involved in ETF selection. Unlike open-ended mutual funds, ETFs may potentially trade above or below the value of their underlying portfolios. While most ordinary mutual funds can only be bought or sold at the end of the day at the calculated net asset value of the fund, ETFs may be purchased or sold throughout the day at prices that are not guaranteed to match the underlying value of the stocks in the portfolio. Accordingly, the Parplus Equity Funds could be exposed to corrective forces if they inadvertently purchase an ETF at a premium to the underlying value of the stocks in the ETF.
- (iii) Layering of Fees – With respect to the Parplus Equity Funds' investments in ETFs, their direct fees and expenses, coupled with their share of the ETF's fees and expenses, results in at least two levels of fees and greater expense than would be associated with direct investment in the underlying securities.
- (iv) Distributions from ETFs – The tax regulations pertaining to ETFs generally cause them to distribute their taxable gains in the form of a dividend near year-end. The share price of the ETF would generally drop by a corresponding amount on the ex-dividend date of the distribution. Such distributions are made on a pro rata basis without regard to the actual gains or losses an individual ETF shareholder may have sustained. Accordingly, investors who have real economic gain less than the amount of the dividend may then have a motivation to sell those ETF shares to

claim the drop in share price as a capital loss and thereby offset the income distribution. However, wash sale rules require that the investor not re-invest for 31 days in order to claim the capital loss deduction. Accordingly, tax strategies employed by other investors may increase the price volatility of ETF shares and of securities owned by such ETFs at times near to the distribution of such a dividend.

*Trading in Options.* Among the instruments that the Parplus Equity Funds may trade are options. An option is a right, purchased for a certain price, to buy or sell an underlying instrument or product during or at the end of a certain period of time (the “expiration”) for a fixed price (the “strike price”). The risks in trading options are different from the risks in trading the underlying instruments or products, and trading in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. For example, if Parplus Partners buys an option for a client, that client will be required to pay a “premium” representing the market value of the option. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset or any combination thereof. Unless the price of the underlying instrument or product changes and it becomes profitable to exercise or offset the option before it expires, a client may lose the entire amount of the premium. Conversely, if Parplus Partners sells an option on behalf of a client, that client will be credited with the premium, but will have to deposit margin due to its contingent liability to deliver or accept the underlying instrument or product in the event that the option is exercised. Sellers of certain options are subject to unlimited risk of loss, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the then- market value. The ability to trade in or exercise options may be restricted in the event that trading in the underlying instrument or product becomes restricted.

*Futures Contracts.* The Parplus Equity Funds may trade futures contracts. Due to the small amount of margin required, trading in futures involves a high degree of leverage. It is not always possible to execute a buy or sell order for futures contracts at the desired price, or to close out an open position, due to market conditions and/or price fluctuations. When the market price of certain futures contracts reaches its daily price fluctuation limit, no trades or only a limited number of trades can be executed. Daily price fluctuation limits are established by some of the exchanges on which a client may trade and approved by appropriate regulatory bodies. The holder of a futures contract may therefore be locked into a position for several days or more and during an adverse price move may lose considerably more than the initial margin paid to establish a position. For certain futures instruments, the daily price fluctuation limits may apply throughout the life of the contract. Difficult or impossible execution also occurs in thinly traded markets. In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits result in a high degree of leverage. As a result, price fluctuations may result in a contract profit or loss that is disproportionate to the amount of funds deposited as margin. Such a profit or loss may materialize suddenly, since the prices of futures frequently fluctuate rapidly and over wide ranges, reflecting both supply and demand changes and changes in market sentiment.

*Stock Index Futures.* The price of stock index futures contracts may not correlate perfectly with the movement in the underlying stock index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause temporary price distortions. Successful use of stock index futures contracts by the Parplus Partners also is subject to Parplus Partners’ ability to predict movements in the direction of the market correctly.

*Over-the-Counter and Other Derivative Instruments in General.* Parplus Partners may use various derivative instruments, including futures, options, forward contracts, swaps and other derivatives which may be volatile

and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Derivative instruments may not be liquid in all circumstances, so that in volatile markets Parplus Partners may not be able to close out a position without incurring a loss. Trading in derivative instruments also may result in large amounts of leverage, which may magnify the gains and losses experienced by Parplus Partners' clients, as well as the volatility in their investment portfolios. Parplus Partners may trade over-the-counter derivative instruments including swap transactions, forward foreign currency transactions and derivatives on bonds and other fixed income securities. Over-the-counter instruments, unlike exchange traded financial instruments, are negotiated, two-party contracts. Because performance of over-the-counter instruments is not guaranteed by any exchange or clearinghouse, clients will be subject to the risk of the inability or refusal to perform with respect to such instruments on the part of the counterparties with which they trade.

**The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved with Parplus Partners' investment programs or an investment in any fund or account advised by Parplus Partners. Prospective clients must consult their own advisers before deciding whether to make such an investment.**



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## ITEM 9: DISCIPLINARY INFORMATION

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Parplus Partners is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Parplus Partners or the integrity of Parplus Partners' management. With the exception of the matter described below, Parplus Partners has no other such matters to report.

On May 3, 2012, without admitting or denying the findings, James W. Carney consented to the entry of findings by the Financial Industry Regulatory Authority ("FINRA"), pursuant to which he was fined \$5,000 and suspended from association with any FINRA member in any capacity for one month. FINRA's findings related to Mr. Carney engaging in outside business activities without disclosing his participation to the FINRA member firm for which he then worked. Mr. Carney provided capital for interrelated debt management businesses to operate, received and reviewed the entities' financial statements and engaged in e-mail communications during the trading day concerning these businesses. A third entity was a trust for which Mr. Carney was the trustee, and a fourth was a beer brewing company for which he became the proprietor. Mr. Carney failed to provide prompt written notice to his firm concerning any of these activities and certified to his firm in two annual compliance questionnaires that he had not engaged in any outside business activity. Mr. Carney's suspension was in effect from May 7, 2012 to June 6, 2012.

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## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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### **Relationship with Ronin.**

Investors who hold an indirect minority interest in Parplus Partners and Parplus Management hold an interest in Ronin Capital, LLC. Ronin Capital, LLC is a privately owned proprietary trading company and a registered broker-dealer headquartered in Chicago, with affiliated offices in New York, London and Hong Kong. The Wolo Group, the trading group formed by Mr. James Carney is an equity member of Ronin and has been trading in Ronin's proprietary account since June 2010. A portion of the Parplus Equity Funds' initial investment capital will be comprised of investments by Ronin principals and/or affiliates. In addition, Parplus Partners and Ronin have entered into a services agreement pursuant to which Ronin may provide certain information technology and back office services to Parplus Partners, Parplus Management and the Parplus Equity Funds, as described in "*Fees and Compensation*" above. Ronin Capital, LLC also owns and controls Dart Executions, LLC ("Dart"), a registered broker-dealer and FINRA member firm, as well as a CFTC-registered introducing broker, which provides Parplus Partners with execution services and direct market access to various exchanges and electronic communication networks. See "*Item 12: Brokerage Practices.*"

Upon the occurrence of certain agreed upon events, the Ronin-related investors may cause Parplus Management or Parplus Partners, as applicable, to purchase such investors' equity interests in Parplus Management or Parplus Partners. The exercise of such right could have a material adverse effect on Parplus Management, Parplus Partners and/or the Parplus Equity Funds, and (without duplication) would generally be expected to significantly reduce the resources available to Parplus Management and Parplus Partners with which to manage client assets.

Investments by Ronin-related investors in the Parplus Equity Funds should not be construed as a recommendation or an endorsement to other prospective investors. Neither Ronin nor any of its affiliates, principals, members, partners or employees (other than Mr. Carney, as further described in "*Other*

*Activities of Parplus Partners and Related Persons*” below) are providing any investment advice nor shall they be active in the management or day-to-day business activities of the Parplus Equity Funds. Such persons shall not have any duties or liabilities to the Parplus Equity Funds for any compliance or non-compliance with applicable legal, investment, tax or regulatory requirements by such funds or for their investment performance. For the avoidance of doubt, Ronin and its affiliates may conduct any other business, including any business within the securities industry, whether or not such business is in competition with Parplus Management, Parplus Partners or the Parplus Equity Funds. In particular, Ronin and/or its affiliate may employ trading strategies that are substantially similar to investment strategies employed by Parplus Partners on behalf of the Parplus Equity Funds, trade in the same financial instruments as such funds and/or take positions in such financial instruments that are opposite to the positions taken by the funds which, in each case, could adversely affect the performance of the Parplus Equity Funds.

Certain conflicts of interest exist in relation to the fact that Ronin and/or its related persons may have a significant investment in the Parplus Equity Funds and also own a portion of the equity interests of each of Parplus Management and Parplus Partners. With respect to its investment in the Parplus Equity Funds, the Ronin investor(s) will be granted terms that are generally preferential to the terms granted to other investors, including, but not limited to, with respect to liquidity, capacity and fees. In addition, Ronin will have access to high level information regarding trading strategies and financial condition of the Parplus Equity Funds, Parplus Management and Parplus Partners. Furthermore, as indirect equity owners in Parplus Management and Parplus Partners, certain Ronin principals share in the Incentive Allocation and has also been afforded various consent rights with respect to certain non-ordinary course actions that are proposed with respect to the operation of Parplus Management, Parplus Partners, and the Parplus Equity Funds. Finally, because of the overlapping ownership between Parplus Partners and Ronin, the terms of the agreements between the Parplus Equity Funds and Ronin affiliates with respect to back office services and the Ronin IT Expenses cannot be said to have been negotiated on a fully arms-length basis. However, Parplus Partners believes that these conflicts are mitigated in part because Ronin and its trading personnel are not actively involved in the day-to-day management and operations of Parplus Partners and do not have access to the trading positions of Parplus Partners (except with respect to certain Ronin back-office staff who assist with the reconciliation of Parplus Partners’ trading positions), and by Parplus Partners’ Code of Ethics, which requires firm personnel to prioritize client interests. See *“Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading,”* below.

#### **Other Clients.**

Although the Parplus Equity Funds are currently the only clients of Parplus Partners, it may manage accounts for additional clients in the future. Certain inherent conflicts of interest may arise from the fact that Parplus Partners may carry on substantial investment activities for multiple clients simultaneously. Parplus Partners may give advice and recommend investments to, or engage in investment transactions for, certain of its clients which advice or investments may differ from advice given to, or investments made for, other clients, even though such clients may have the same or similar investment objectives. The investment methods and strategies that Parplus Partners uses to manage a particular client’s account may be used by Parplus Partners when managing another client’s account, which may result in multiple clients “competing” for limited investment opportunities in certain cases. Parplus Partners and/or its affiliates may have a conflict of interest in rendering advice to a particular client because the financial benefit from managing another client’s account may be greater, which could provide an incentive to favor such other client’s account. In the event that Parplus Partners proposes to manage assets for additional clients, it will seek to mitigate this potential conflict by implementing a methodology for allocating investment opportunities and positions among its clients on an equitable basis.

### **Other Activities of Parplus Partners and Related Persons.**

Parplus Partners and its principals and affiliates will devote such time and attention to the business and affairs of their clients as they, in their sole discretion, may deem reasonably necessary. Parplus Partners and its principals and affiliates are not required to devote a specific amount of time to the business and affairs of any client (including the Parplus Equity Funds), and are entitled to engage in various other activities. Parplus Partners and its principals and affiliates may engage in, invest in, participate in or otherwise enter into other business ventures of any kind, nature or description, alone or with others.

Parplus Partners, its principals and their respective affiliates invest and trade for their own accounts, including in financial instruments in which a client takes a position, and may trade and invest simultaneously with a client and/or take investment positions that are different from the positions taken by a client. In particular, Mr. Carney is a retired equity member of Wolo Group who continues to hold an ownership interest in the group and may, from time to time, provide advice to the Wolo Group with respect to trading strategies, industry and general economic conditions and such other matters for which the Wolo Group determine to seek Mr. Carney's counsel. Wolo Group, an equity member of Ronin Capital, LLC, continues to trade for the proprietary account of Ronin. However, Mr. Carney is no longer involved in the Wolo Group's day-to-day operations with Ronin. Parplus Partners may share ownership with the Wolo Group and/or Ronin of any proprietary intellectual property and/or investment strategies developed or derived by Parplus Partners from trading activities conducted on behalf of the Parplus Equity Funds. As a result, conflicts of interest may arise between one or more clients (including the Parplus Equity Funds), on the one hand, and Parplus Partners and its principals and affiliates, on the other hand, with respect to matters such as the allocation of investment opportunities, purchases and sales of financial instruments in connection with particular trading situations and allocation of personnel, resources and expenses. The records of trading by Parplus Partners and its principals and affiliates will not be made available to investors or clients, except to the extent required by law. However, trading by principals and personnel of Parplus Partners will be subject to Parplus Partners' Code of Ethics and personal trading policy, as described below in "*Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*," which seeks to further mitigate the conflicts described above.

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## ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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Parplus Partners has adopted a code (the “**Code of Ethics**”) for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, and personal securities trading procedures, among other things. All supervised persons at Parplus Partners must acknowledge the terms of the Code of Ethics annually, or as amended. Clients or prospective Clients may request a copy of Parplus Partners’ Code of Ethics by contacting the firm’s Chief Compliance Officer at the number set forth on the cover page.

As a matter of policy, Parplus Partners does not knowingly cause Clients to effect transactions in which such Client purchases securities or other instruments from, or sells securities or other instruments to, Parplus Partners or its principals or affiliates (i.e., principal trades), or in which one of Parplus Partners’ affiliates acts as broker for both Parplus Partners’ Client and the other party to the transaction (i.e., agency cross transactions).

Currently, the Parplus Equity Funds are the only Clients of Parplus Partners. However, in the event that the firm manages assets for other Clients in the future, it may from time to time cause Clients to enter into “cross trades” (i.e., transactions in which such client purchases securities or other instruments from, or sells securities or other instruments to, another Parplus Partners Client). In any cross trade, Parplus Partners will have a potentially conflicting division of loyalties and responsibilities regarding the Client accounts that are parties to such transaction. Parplus Partners can effect a cross trade if Parplus Partners believes that such transaction is appropriate and in the best interest of all Client accounts participating in such transaction. For example, circumstances may arise where Parplus Partners wishes to reduce (or increase) the investment of one Client account in certain assets and increase (or reduce) another Client account’s investment in the same assets, in which case Parplus Partners may effect a cross trade by directing the transfer of such assets between such Client accounts. Parplus Partners also may effect cross trades in order to re-balance portfolios or provide better liquidity to relevant Client accounts. Neither Parplus Partners nor any related person will receive a commission or similar compensation in connection with any such cross trade. Any such cross trade generally will be effected at a purchase price equal to such securities’ or other assets’ fair market value at the time of the transaction. Each Client account participating in a cross trade will bear the costs and expenses associated with such transaction on a pro rata basis.

In addition, Parplus Partners may, in appropriate circumstances when deemed consistent with a Client’s investment objectives, cause Client accounts to purchase or sell securities in which Parplus Partners, its affiliates and/or Clients, directly or indirectly, have a position or interest. *See “Item 10: Other Financial Industry Activities and Affiliations.”*

Parplus Partners’ employees and persons associated with Parplus Partners are required to follow Parplus Partners’ Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Parplus Partners and its affiliates generally are permitted to trade for their own accounts in securities which are recommended to and/or purchased for Clients, as described above in “*Item 10: Other Financial Industry Activities and Affiliations.*” The Code of Ethics is designed to assure that the personal transactions, activities and interests of the employees of Parplus Partners will not interfere with (i) making decisions in the best interest of Clients and (ii) implementing such decisions while at the same time allowing employees to invest for their own accounts. The Code of Ethics requires that the interests of the

Clients be placed ahead of those of Parplus Partners employees in their personal trading. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as a Client, there is a possibility that employees might benefit from market activity by a Client in a security held by an employee. Employee trading is regularly reviewed under the Code of Ethics, in an effort to prevent conflicts of interest between Parplus Partners and its Clients.

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## ITEM 12: BROKERAGE PRACTICES

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Parplus Partners generally will have the discretion to select the brokers utilized to effect transactions for the Parplus Equity Funds and to negotiate the rates and commissions that they will pay. In selecting brokers, Parplus Partners may not adhere to any rigid formulae in making the selection but will weigh a combination of criteria consistent with its obligation to seek “best execution” for its Clients. Parplus Partners needs not to solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Brokers will be selected generally on the basis of best execution, which may be determined by considering, in addition to price and commission rates, other factors including the broker’s reliability, reputation, financial responsibility, stability, ability to execute trades, nature and frequency of sales coverage, commission rate, if any, responsiveness and research and other services (“Products and Services”).

**Research and Other Soft Dollar Benefits.** In exchange for the direction of commission dollars to certain brokers, credits (or soft dollars) may be generated which may be used by Parplus Partners to pay for the Products and Services provided by, or paid by, such brokers (“Credits”). Although the commission rates charged by such brokers may not be represented as reflecting such additional Products and Services, the commission rates charged by such brokers may be higher or lower than the commission rates charged by other brokers, and Clients may be deemed to be paying for such other Products and Services provided by the broker which are included in the commission rate (i.e., “paying up”). Products or Services may be in any form (e.g., written, oral or on-line). Parplus Partners does not intend to enter into soft dollar arrangements that would fall outside of the “safe harbor” rules set forth in Section 28(e) under the Securities Exchange Act of 1934, as amended.

In some instances, Parplus Partners may receive Products and Services that may be used only partially for functions within Section 28(e). In such instances, Parplus Partners will make a good faith effort to determine the relative proportion of the Product and Service used to assist Parplus Partners in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the Product and Services attributable to assisting Parplus Partners in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by Client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by Parplus Partners from its own resources.

Parplus Partners may derive substantial direct or indirect benefit from these Products and Services, particularly to the extent it uses Credits to pay for research or other expenses which it would otherwise be required to pay. To the extent that Parplus Partners receives the benefits of Products and Services, a potential conflict of interest exists between Parplus Partners’ duty to manage or trade for its Clients in their best interests and in an effort to obtain best execution, on the one hand, and Parplus Partners’ desire to receive the potential benefits of these Products and Services, on the other hand. In addition, Products and Services obtained by the use of commissions generated from the transactions for a particular Client’s account may be used by Parplus Partners in servicing some or all of its Clients and/or the Clients of its affiliates, and a Client may not necessarily, in any particular instance, be the direct or indirect beneficiary

of the Products and Services obtained by the use of commissions generated from the transactions for such Client's account.

In the last fiscal year, Parplus Partners and its affiliates have not utilized brokerage commissions generated by Clients to acquire Products and Services as described herein but may do so in the future.

**Aggregation and Allocation of Client Orders/Investments.** In some cases, Parplus Partners may combine purchase and sale orders of financial instruments on behalf of multiple Clients (if applicable) as well as other accounts, including, when applicable, its own or members' or employees' personal accounts, and all such participants in the transaction will receive the average price of all securities and other financial instruments purchased or sold in such transactions (net of transaction costs) in the transaction. Although aggregation may operate to the disadvantage of a particular Client in a given transaction, Parplus Partners will employ an objective price allocation system that is intended to promote fairness among all accounts or entities, including Client and proprietary accounts.

**Use of Related Brokers.** Dart, a wholly-owned subsidiary of Ronin Capital, LLC, provides Parplus Partners with execution services and direct market access to a variety of exchanges and electronic communication networks, and will receive commissions with respect thereto. Although Dart is affiliated with Ronin, Parplus Partners believes that the terms of Dart's services on behalf of Parplus Partners' Clients are fair to Clients. However, the use of related brokers creates certain conflicts of interest, including between the duties of Parplus Partners to its Clients and its incentive to direct business to a related executing broker-dealer, and may result, among other things, in Clients paying higher commissions to execute its transactions than might otherwise be the case. The use of Dart could potentially impair the ability of Clients to obtain the most favorable terms with respect to transactions in all cases, and the relationship between Dart and Ronin might reduce the incentive to Parplus Partners to use other brokers in such cases. In order to mitigate these potential conflicts, Parplus Partners will implement procedures for performing regular best execution reviews, designed (among other things) to assess and confirm whether the use of Dart continues to satisfy Parplus Partners' duty of best execution and provides Clients with quality executions.

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### ITEM 13: REVIEW OF ACCOUNTS

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**Account Reviews.** The Parplus Equity Funds have engaged a third-party fund administrator to provide day-to-day administrative and bookkeeping services to the funds. Parplus conducts daily trade reconciliations and reviews of the positions held by the Parplus Equity Funds. These reviews are conducted by the Chief Compliance Officer.

**Client Reporting.** Parplus will furnish audited financial statements annually to all investors in the Parplus Equity Funds. Such investors are also provided with monthly unaudited reports including information regarding such fund's net assets and performance.

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### ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

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Parplus Partners currently has no arrangements whereby it receives an economic benefit from any person who is not a Client for providing investment advice or other advisory services to Clients. Parplus Partners does have in place agreements to compensate two duly qualified placement agents to solicit prospective investors for one or more of the Parplus Equity Funds.

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## **ITEM 15: CUSTODY**

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Parplus Partners and/or Parplus Management will have custody of the funds and securities of the Parplus Equity Funds, which will be maintained at one or more “qualified custodians,” as defined under Rule 206(4)-2 of the Advisers Act. A “qualified custodian” generally is a bank or savings association that has deposits insured by the U.S. Federal Deposit Insurance Corporation, an SEC registered broker-dealer, a futures commission merchant or a foreign financial institution that holds segregated customer assets. An independent public accountant will audit each of the Parplus Equity Funds on an annual basis, and copies of the audited financial statements will be sent to the investors in such funds as described above in “*Review of Accounts*.”

A Client may receive periodic statements from the custodian that holds and maintains such Client’s investment assets. Parplus Partners urges each Client to carefully review such statements and compare such official custodial records to any account statements that Parplus Partners may provide such Client. Parplus Partners’ statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities or other instruments.

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## **ITEM 16: INVESTMENT DISCRETION**

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Parplus Partners exercises discretionary authority over the accounts of its Clients. Parplus Partners generally receives discretionary authority from the Client at the outset of an advisory relationship by means of investment advisory or similar agreements, or, in the case of certain of the Parplus Equity Funds, through the constituent documents of the funds themselves, which grant a power of attorney in favor of Parplus Partners to select the identity and amount of any investments to be bought or sold for the Client. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the applicable Client’s account.

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## **ITEM 17: VOTING CLIENT SECURITIES**

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Parplus Partners holds the authority to vote proxies on behalf of the Parplus Equity Funds; however, it is generally not Parplus Partners’ practice to vote such proxies, as it is Parplus Partners’ view that the outcome of such corporate decisions related to the financial instruments in which the Parplus Equity Funds invest typically does not materially impact the implementation of Parplus Partners’ investment strategies. Parplus Partners will analyze on an annual basis the estimated costs associated with casting such proxies on behalf of the Fund against any estimated potential benefits of doing so, and reserves the right to vary this practice where it determines that doing so is in the best interests of the Parplus Equity Funds, although it is not anticipated that Parplus Partners will do so. Clients generally may not direct Parplus Partners’ vote in a particular solicitation. Clients may request a copy of Parplus Partners’ proxy voting policies and procedures and information about how Parplus Partners voted any proxies on its behalf of by contacting the Chief Compliance Officer at the number listed on the cover page.

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**ITEM 18: FINANCIAL  
INFORMATION**

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Parplus Partners is required to provide certain financial information or disclosures about its financial condition. Parplus Partners does not require or solicit prepayment of more than \$1,200 six months or more in advance. Parplus Partners has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its Clients and has not been the subject of a bankruptcy proceeding.

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