

# ESOTERICA

## Part 2A of FORM ADV

### Firm Brochure

**Esoterica Capital LLC**

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This Brochure provides information about the qualifications and business practices of Esoterica Capital LLC (“**ESOTERICA**”). If you have any questions about the contents of this Brochure, please contact us at 1-860-543-3942 or through [www.esotericacap.com/contact](http://www.esotericacap.com/contact) or at the address listed above. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority. ESOTERICA is a registered investment adviser with the SEC. Registration of an investment adviser does not imply a certain level of skill or training.

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

## **ITEM 2 MATERIAL CHANGES**

None.

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## **ITEM 4 ADVISORY BUSINESS**

### **Description of the Advisory Firm**

Esoterica Capital LLC (“ESOTERICA”) is a Delaware limited liability company with headquarters located at 675 West 59<sup>th</sup> Street, Suite 903, New York, NY 10069. ESOTERICA is an independent firm that has been registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment adviser since October 2019. ESOTERICA began managing assets in March 2020. ESOTERICA is privately owned and controlled by its members.

ESOTERICA specializes in thematic investing in global digital economy underpinned by fundamental research and adaptive asset allocation solutions. Thematic investing is based on broader, macroeconomic topics (i.e., themes) rather than benchmarks, and seeks to capture long-term growth independent of sectors, geographic boundaries, and market-caps. Specifically, ESOTERICA invests in themes that it believes will participate in global digital transformation across several sectors. ESOTERICA’s adaptive asset allocation solution is a low volatility, capital preservation strategy that tactically repositions risk taking in response to cyclical market conditions. It adjusts asset allocation defensively during economic downturns, and aggressively during expansionary periods.

### **ESOTERICA’s Investment Process**

ESOTERICA’s cohesive team of research analysts and its portfolio manager (“ESOTERICA Team”) seek to identify what they believe to be the best companies within their respective themes (and the elements within those themes) to power ESOTERICA’s investment decisions. ESOTERICA Team also utilizes quantitative analysis and technology to dynamically adjust risk profile as macro-economic conditions evolve. ESOTERICA’s distinctive and dynamic investment process is rooted in fundamental analysis.

Additionally, ESOTERICA considers and uses the framework of the United Nations Sustainable Development Goals to integrate environmental, social, and governance considerations into the research and investment process. ESOTERICA does not use ESG considerations, however, to limit, restrict or otherwise exclude companies or sectors from an investment universe.

### **Types of Advisory Services**

#### *Advisory Services to the ESOTERICA ETF*

ESOTERICA provides investment advisory services to the Esoterica Thematic Trust, (“ESOTERICA ETF”), which is an exchange-traded fund and a series of Esoterica Thematic Trust, a registered investment company. ESOTERICA serves as the investment adviser to ESOTERICA ETF, subject to the general supervision of the Board of Trustees of the Esoterica Thematic Trust. ESOTERICA’s duties as adviser to ESOTERICA ETF include furnishing a continuous investment program for the ESOTERICA ETF and determining what investments or securities will be purchased, held or sold. After the initial two-year period following commencement of operations of the relevant ESOTERICA ETF, the Esoterica Thematic Trust’s Board of Trustees annually reviews and evaluates the services provided by ESOTERICA under the investment advisory agreement (“Advisory Agreement”) and is asked to approve the agreement for an additional one-year period.

Additional information regarding the services provided by ESOTERICA to the Esoterica Thematic Trust can be found in the ESOTERICA ETF's prospectus and Statement of Additional Information, which are publicly available at [www.esotericacap.com/our-solutions](http://www.esotericacap.com/our-solutions), on the EDGAR Database on the SEC's website ([www.sec.gov](http://www.sec.gov)) or by contacting ESOTERICA ETF's principal underwriter, Foreside Fund Services, LLC at Three Canal Plaza, Suite 100, Portland, ME 04101 or by calling 866-979-1710.

### *Advisory Services to Separately Managed Accounts*

ESOTERICA will provide investment advisory services to separately managed accounts. Such accounts will be managed in accordance with investment objectives, guidelines, strategies, policies and restrictions established by each client and documented in a written advisory agreement (and related documents) with, or on behalf of, each client and ESOTERICA. Depending upon the contractual arrangements, ESOTERICA executes purchases and sales of securities for these accounts either through firms that the client directs ESOTERICA to use or through broker-dealer firms ESOTERICA selects including firms that can furnish ESOTERICA with investment research and other brokerage services. As described in more detail in Item 12, in executing trades for accounts where the client authorizes ESOTERICA to choose broker-dealers, ESOTERICA will seek to obtain the most favorable execution taking into consideration a number of factors, including price.

### *Research Services*

ESOTERICA can, subject to applicable law, discuss with clients, potential clients or other third parties, one or more issuers (public or private) that it does not then hold in any portfolio managed by ESOTERICA and which ESOTERICA consider for investment. Any such discussions are solely for informational purposes, will only regard public information, and are not intended to constitute investment advice (except to the extent such discussions are investment advisory services specifically contemplated by an investment advisory agreement between ESOTERICA and a client). Such discussions could include, among other things, the views of ESOTERICA's portfolio manager or analysts regarding the issuer or its securities, the issuer's financial condition or prospects, or the merits generally of an investment (or non-investment) in that issuer or any industry or sector of which that issuer is a part. ESOTERICA is under no obligation to enter into such discussions with any client or all clients and can elect to have such discussions only with certain clients or with third parties in its sole discretion. ESOTERICA will not, as a result of any such discussion, be limited in any way from purchasing or selling investments of any such issuer, including investments that could be or appear to be inconsistent with the views expressed in such discussion, except as required by law.

### *Research Publications and Client Services*

ESOTERICA publishes most of its research analysis on our external website in an on-going effort to educate investors on the subjects. This initiative includes publication of blog articles, white papers, videos, or other content formats, hosting of educational research events, and sending of research newsletters and market commentaries to clients and subscribers.

## **Discretionary Assets Under Management**

As of June 30, 2020, ESOTERICA's assets under management totaled approximately \$26,727,000 (rounded to the nearest thousand) and breaks out as follows:

- Discretionary: \$26,727,000

## ITEM 5 FEES AND COMPENSATION

### Fees and Compensation

The following information describes ESOTERICA's compensation for the advisory services it provides to each type of client account.

Actively Managed ETF. The annual Management Fee for each actively managed ETF is paid to ESOTERICA monthly in arrears based on the average daily net assets of each ESOTERICA ETF. The annual Management Fee for Esoterica NextG Economy ETF (WUGI), an ETF managed by ESOTERICA in the Esoterica Thematic Trust, investing in the 5G-enabled digital economy, is 0.75%.

Additional information about the fees charged to the ESOTERICA ETF is available in the ESOTERICA ETF's prospectus and Statement of Additional Information, which are publicly available at [www.esotericacap.com/our-solutions](http://www.esotericacap.com/our-solutions), on the EDGAR Database on the SEC's website ([www.sec.gov](http://www.sec.gov)) or by contacting ESOTERICA ETF's principal underwriter, Foreside Fund Services, LLC at Three Canal Plaza, Suite 100, Portland, ME 04101 or by calling 866-979-1710.

### Separately Managed Accounts

When ESOTERICA enters into an Advisory Agreement or other agreements to provide investment management or advisory services to clients, ESOTERICA will charge each such client a fee at a specified annual percentage rate of the client's assets under management ("AUM"). Fees also can include a performance component for certain clients, as discussed in Item 6.

ESOTERICA's standard fee rates for management of separately managed accounts will normally be between 0.60% and 1.00% of AUM. The fees charged to separately managed accounts are negotiable and typically will vary and can be reduced or can include breakpoints depending on a number of factors including, but not limited to: the type of client, the size of the account, the total amount of client AUM managed or advised by ESOTERICA, whether the client wishes to impose particular limitations or restrictions on ESOTERICA's discretionary investment authority (e.g., restrictions on the types of securities that ESOTERICA acquires for the account), clients that anchor an investment strategy, and other business considerations. ESOTERICA generally imposes investment minimums on separately managed accounts.

ESOTERICA's fee rates do not include fees that separately managed account clients normally pay to other third-party service providers, including custodial, administrative, securities lending agent, consultant, brokerage, and exchange fees.

## **Payment of Fees**

The Management Fee paid by the ESOTERICA ETF is calculated daily and paid monthly in arrears based on the average daily net assets of the relevant fund.

Generally, ESOTERICA will bill separately managed account clients and firms receiving investment instructions or model portfolios. The Management Fee is calculated daily and paid monthly in arrears based on the average daily net assets of the accounts.

A client can pay fees directly to ESOTERICA or can instruct its custodian to pay fees from the client's account. In instances in which a client has authorized direct billing, the client's "qualified custodian" for purposes of the Custody Rule (as defined below) sends periodic statements, no less frequently than quarterly, showing all transactions to the account in accordance with Rule 206(4)-2 ("Custody Rule") under the Investment Advisers Act of 1940, as amended ("Advisers Act"). Clients can also request that billings be made directly to the client or a designated third party if authorized in writing by the client. Under no circumstances will ESOTERICA receive fees that are not in compliance with the Custody Rule.

## **Third-Party Fees**

Clients pay brokerage commissions and any other costs associated with the trading, maintenance, and operations of their accounts. Please see Item 12, "Brokerage Practices," for additional information about ESOTERICA's brokerage practices.

Separately managed account clients generally engage their own custodians and are responsible for fees and other charges associated with their custodians. Separately managed account clients have the option to engage their own administrator, securities lending agent, and consultants and are responsible for fees and other charges associated with the services provided by such entities.

If ESOTERICA invests a client's assets in a mutual fund, exchange-traded fund or other collective unitized vehicle, the client could incur expenses and fees as a shareholder of those such funds. These expenses include advisory/management fees, service and/or distribution fees, administrative expenses, and other fund operating expenses. Clients wishing to obtain more information about the fees and expenses that apply due to investing in mutual funds or exchange-traded funds should contact ESOTERICA. Clients can also obtain more information by reviewing the relevant prospectuses for the mutual funds, exchange-traded funds or collective unitized vehicles in which the clients' assets are invested.

## **Outside Compensation for the Sale of Securities**

Neither ESOTERICA nor its supervised persons accept or receive compensation for the sale of securities or other investment products outside of their association with ESOTERICA.

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

ESOTERICA offers performance fee arrangements. A performance fee arrangement is a method of compensating an investment adviser based on a share of the gains or appreciation of the client's assets under management. The fee structure will consist of a base fee and a performance fee. Performance fee rates will be negotiable. A client can negotiate the base fee rate, performance fee rate, the index used to calculate the performance fee, or the use of no index in calculating the performance fee. Performance fee arrangements are not necessarily available for all investment themes and must be approved by ESOTERICA on a case-by-case basis. Any performance fee that ESOTERICA charges is intended to comply with requirements of Rule 205-3 under Adviser's Act.

Performance fee arrangements provide an incentive for ESOTERICA to seek to maximize the investment return of accounts paying performance fees by making investments that are subject to greater risk or are more speculative than would be the case if ESOTERICA's compensation was not based upon the investment return of such accounts. Under such arrangements, ESOTERICA's performance is contingent upon the return experienced by the client, which is computed based upon unrealized and realized appreciation of assets in the client's account. Accounts participating in a performance fee arrangement could pay ESOTERICA more compensation when compared to standard fee rates. Consequently, ESOTERICA would be incentivized to favor performance fee accounts in allocating profitable investments or to devote more resources toward such accounts' management.

ESOTERICA has a fiduciary duty to act in the best interests of its clients. As part of ESOTERICA's fiduciary duty, ESOTERICA owes a duty of loyalty to its clients. Nevertheless, because ESOTERICA has multiple clients, whose interests are not necessarily aligned, ESOTERICA's duty of loyalty to one client could conflict with its duty of loyalty to another, including with respect to allocating trades. To address conflicts of interest that arise in the trade allocation process, ESOTERICA has adopted a side-by-side management and trade rotation policy intended to provide fair and equitable treatment to its clients over time, consistent with ESOTERICA's duty of loyalty. ESOTERICA and its personnel endeavor to ensure that, over time: each client is treated fairly as to the securities purchased or sold for its account; each client is treated fairly with respect to priority of execution of orders; and each client is treated fairly in the allocation of investment opportunities.

Because of the diversity of investment goals, risk tolerances, tax situations, and differences in the timing of capital investments/contributions and redemptions/withdrawals, investment positions in client accounts inevitably will differ among client accounts. All allocations of securities among client accounts are intended to be consistent with each client account's investment goals and financial situation, and the foregoing principles. ESOTERICA intends to apportion or allocate business opportunities among client accounts on a basis that is fair and equitable over time to the maximum possible extent.

In addition, ESOTERICA seeks to mitigate the potential conflicts of interest that could arise from managing accounts that bear a performance fee by monitoring and diligently enforcing its policies and procedures, including those related to investment allocation, and complying with Rule 205-3 under the Advisers Act as stated above.



## **ITEM 7 TYPES OF CLIENTS**

### **ESOTERICA ETF**

Currently, ESOTERICA is the investment manager and provides management and supervisory services to the ESOTERICA ETF:

#### **Esoterica NextG Economy ETF (WUGI)**

The ESOTERICA ETF is exchange-traded fund. The ESOTERICA ETF is a non-diversified, open-end management investment company registered under the Investment Company Act of 1940, as amended ("1940 Act"), whose shares are registered for sale under the Securities Act of 1933, as amended ("1933 Act").

ESOTERICA's services to the ESOTERICA ETF are supervised by the governing board of the Esoterica Thematic Trust, currently composed of three Trustees. For independence purposes, two of the three Trustees are not "interested persons" of the Esoterica Thematic Trust or ESOTERICA. Additional information about each ESOTERICA ETF, including the services that ESOTERICA provides and the ESOTERICA ETF's investment objectives, strategies and risks, can be found in the ESOTERICA ETF's prospectus and Statement of Additional Information, which are publicly available at [www.esotericacap.com/our-solutions](http://www.esotericacap.com/our-solutions), on the EDGAR Database on the SEC's website ([www.sec.gov](http://www.sec.gov)) or by contacting ESOTERICA ETF's principal underwriter, Foreside Fund Services, LLC at Three Canal Plaza, Suite 100, Portland, ME 04101 or by calling 866-979-1710.

#### **Separately Managed Accounts**

ESOTERICA intends to provide investment advisory services to certain separately managed accounts for U.S. institutions (which can include retirement plans, tax-exempt entities, public funds, foundations, endowments, insurance companies and their separately managed accounts, emerging manager programs, and financial institutions and their customers and clients), non-U.S. institutions, and high net worth clients (which can include individual investors, trusts and smaller employee benefit plans). ESOTERICA typically will require that accounts have a minimum account size of \$250,000 dollars, and minimum account values vary by client type.

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

ESOTERICA offers the following strategies to clients by, under normal circumstances, generally investing primarily in liquid U.S. and non-U.S. equity and fixed income securities.

### **Adaptive Asset Allocation Solution**

Esoterica's core investment strategy is an asset allocation solution that rotates between stocks and bonds, as market conditions suggest ("Wealth Builder"). There is always some segment of the marketplace that is outperforming, and Esoterica's asset allocation investment solution seeks to identify and capture this outperformance by dynamically adapting the risk profile to changing market conditions. Over a market cycle, the asset allocation solution seeks to generate S&P 500 equity-like returns, with less downside risk, where the improved capital preservation is achieved through the dynamic allocation process.

The benchmark for Esoterica's active strategy is the passive 60% S&P 500 / 40% U.S. Aggregate Bond index. The key to the active strategy is to use cyclical tilts such that there is enough equity exposure to participate in economic expansions, and enough fixed income exposure to buffer economic downturns.

The portfolio's equity allocations can range from 0% to 100%. In addition, since ESOTERICA is attempting to identify the most highly compensated risk factors, the equity allocation may include non-benchmark risk. The three main targeted equity risk factors include: (1) geographic indices (S&P 500, EAFE, and Emerging Markets); (2) size indices (large caps, mid-caps, and small caps); and style indices (value, growth and core). This list is not exhaustive and may change over time, especially as trading costs continue to decline and expand the economically feasible risk factor options. The equity exposure will normally be garnered through investments in passive ETFs.

The portfolio's fixed income exposure can also range from 0% to 100%. The fixed income allocation will normally be limited to passive ETF exposures to the U.S. Agg and/or cash, but again, this is neither an exhaustive fixed income list nor a exhaustive list of fixed income investment vehicles.

Re-balancing may occur at any time. Our asset allocation exposure is monitored daily, for risk management reasons, but the rebalancing frequency is usually monthly, to manage portfolio turnover.

### **5G-Enabled Digital Economy**

Esoterica believes 5G is much more than an upgrade to wireless cellular networks; 5G accelerates global digital transformation. We believe that value creation goes far beyond carriers. Value resides with the transformative technologies that are creating a new generation of semiconductors that power 5G and other advanced computing needs; a new cloud computing architecture that's moving to the edge to optimize the benefits of faster speed, low latency, and massive capacity; software to filter and process vast quantities of data in real-time; and, enabling technologies such as streaming, smart homes, smart factories, remote healthcare, autonomous vehicles, AR/VR, and applications that have yet-to-be-created. 4G was foundational to mobile internet that has transformed our lives; 5G is digitalizing our economy at every level.

Our investment process is underpinned by fundamental research, conducted by analysts on the ground

in the U.S. and Asia: the two leading regions in the 5G race. Our investment approach is both “top-down” to identify the above-mentioned sectors and “bottom-up”, to identify companies that are attractively valued and well-positioned. Technologies leveraging the next generation of connectivity are fast-evolving, and the perception of investors ever-changing (and often misunderstood), such that actively rotating between the sectors (and therefore companies) is a meaningful source of returns.

## **Descriptions of Material Risks**

5G Companies and Emerging Technologies Investment Risk: Companies across a wide variety of industries, primarily in the technology sector, are exploring the possible applications of 5G technologies. The extent of such technologies' versatility has not yet been fully explored. Consequently, ESOTERICA's holdings may include equity securities of operating companies that focus on or have exposure to a wide variety of industries, and the economic fortunes of certain companies held by ESOTERICA may not be significantly tied to 5G technologies. Currently, there are few public companies for which 5G technologies represent an attributable and significant revenue or profit stream, and such technologies may not ultimately have a material effect on the economic returns of companies in which ESOTERICA invests.

Communication Services Companies Risk: Communication services companies may be subject to specific risks associated with legislative or regulatory changes, adverse market conditions, intellectual property use and/or increased competition. Communication services companies are particularly vulnerable to rapid advancements in technology, the innovation of competitors, rapid product obsolescence and government regulation and competition, both domestically and internationally. Additionally, fluctuating domestic and international demand, shifting demographics and often unpredictable changes in consumer tastes can drastically affect a communication services company's profitability. While all companies may be susceptible to network security breaches, certain communication services companies may be particular targets of hacking and potential theft of proprietary or consumer information or disruptions in service, which could have a material adverse effect on their businesses.

Concentration Risk: To the extent ESOTERICA's investments are concentrated in a particular industry or group of industries, the portfolio may be susceptible to loss due to adverse occurrences affecting that industry or group of industries.

Cyber Security Risk: ESOTERICA and its service providers may be prone to operational and information security risks resulting from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional events that may cause ESOTERICA to lose proprietary information, suffer data corruption, or lose operational capacity. Breaches in cyber security include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information or various other forms of cyber-attacks. Cyber security breaches affecting ESOTERICA, its custodian, transfer agent, and other third-party service providers may adversely impact the portfolios. Similar types of cyber security risks are also present for issuers of securities in which ESOTERICA may invest, which could result in material adverse consequences for such issuers and may cause ESOTERICA's investment in such companies to lose value.

Foreign Securities Risk: Since ESOTERICA's investments may include foreign securities, ESOTERICA is subject to risks beyond those associated with investing in domestic securities. Foreign companies are generally not subject to the same regulatory requirements of U.S. companies thereby resulting in less publicly available information about these companies. In addition, foreign accounting, auditing and financial reporting standards

generally differ from those applicable to U.S. companies. The value of foreign securities is also affected by the value of the local currency relative to the U.S. dollar.

Securities of 5G companies that are foreign companies may be subject to the risks associated with capital controls and sanctions. Economic conditions, such as volatile currency exchange rates and interest rates, political events, military action and other conditions may, without prior warning, lead to foreign government intervention (including intervention by the U.S. government with respect to foreign governments, economic sectors, foreign companies and related securities and interests) and the imposition of capital controls and/or sanctions, which may also include retaliatory actions of one government against another government, such as seizure of assets. Capital controls and/or sanctions include the prohibition of, or restrictions on, the ability to transfer currency, securities, or other assets. Capital controls and/or sanctions may also impact the ability of the Fund to buy, sell, or otherwise transfer securities or currency, including depositary receipts, negatively impact the value and/or liquidity of such instruments, adversely affect the trading market and price for shares of the Fund, and cause the portfolio to decline in value.

Depository Receipt Risk: Depositary receipts involve risks similar to those associated with investments in foreign securities, such as changes in political or economic conditions of other countries and changes in the exchange rates of foreign currencies. Depositary receipts listed on U.S. exchanges are issued by banks or trust companies and entitle the holder to all dividends and capital gains that are paid out on the underlying foreign shares ("Underlying Shares"). When ESOTERICA invests in depositary receipts as a substitute for an investment directly in the underlying shares, the portfolio is exposed to the risk that the depositary receipts may not provide a return that corresponds precisely with that of the underlying shares.

Emerging Markets Risk: The Fund may invest in companies organized in emerging market nations. Investments in depositary receipts linked to underlying shares traded in developing or emerging markets, or that provide exposure to such securities or markets, can involve additional risks relating to political, economic, or regulatory conditions not associated with investments in U.S. securities and instruments or investments in more developed international markets. Such conditions may adversely affect the trading market and price for shares and cause the portfolio to decline in value.

Non-Diversification Risk: Although ESOTERICA intends to invest in a variety of securities and instruments, the portfolio is potentially non-diversified, which means that it may invest more of its assets in the securities of a single issuer or a smaller number of issuers than if it were a diversified portfolio. As a result, the portfolio may be more exposed to the risks associated with and developments affecting an individual issuer or a smaller number of issuers than a fund that invests more widely. This may increase the portfolio's volatility and cause the performance of a relatively smaller number of issuers to have a greater impact on performance.

Active Management Risk: The portfolio is actively managed, which means that investment decisions are made based on investment views. There is no guarantee that the investment views will produce the desired results or expected returns, which may cause the portfolio to fail to meet its investment objective or to underperform its benchmark index or funds with similar investment objectives and strategies. Furthermore, active trading that can accompany active management may result in high portfolio turnover, which may have a negative impact on performance. Active trading may result in higher brokerage costs or mark-up charges, which are ultimately passed on to investors. Active trading may also result in adverse tax consequences.

Limited History of Operations Risk and New Adviser Risk: The Adviser is newly-formed and has no history of operations for investors to evaluate. As a result, investors do not have a track record from which to judge the Adviser, and the Adviser may not achieve the intended result in managing the portfolios.

Sector Concentration Risk: Esoterica may focus its investments in securities of a particular sector. Economic, legislative or regulatory developments may occur that significantly affect the sector.

- Communications Services Sector Risk: Esoterica may invest in companies in the communications services sector, and therefore the performance of the portfolios could be negatively impacted by events affecting this sector. Communications services companies are subject to extensive government regulation. The costs of complying with governmental regulations, delays or failure to receive required regulatory approvals, or the enactment of new adverse regulatory requirements may adversely affect the business of such companies. Companies in the communications services sector can also be significantly affected by intense competition, including competition with alternative technologies such as wireless communications (including with 5G and other technologies), product compatibility, consumer preferences, rapid product obsolescence, and research and development of new products. Technological innovations may make the products and services of such companies obsolete.
- Information Technology Sector Risk: Esoterica may invest in companies in the information technology sector, and therefore the performance of the portfolios could be negatively impacted by events affecting this sector. Market or economic factors impacting information technology companies and companies that rely heavily on technological advances could have a significant effect on the value of the portfolio's investments. The values of stocks of information technology companies and companies that rely heavily on technology are particularly vulnerable to rapid changes in technology product cycles, rapid product obsolescence, government regulation and competition, both domestically and internationally, including competition from foreign competitors with lower production costs. Stocks of information technology companies and companies that rely heavily on technology, especially those of smaller, less-seasoned companies, tend to be more volatile than the overall market. Information technology companies are heavily dependent on patent and intellectual property rights, the loss or impairment of which may adversely affect profitability. Information technology companies and companies that rely heavily on technology may also be prone to operational and information security risks resulting from cyber-attacks and/or technological malfunctions.
- Basic Materials Sector Risk: To the extent ESOTERICA invests in the basic materials sector, it will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the basic materials sector. Companies engaged in the production and distribution of basic materials may be adversely affected by changes in world events, political and economic conditions, energy conservation, environmental policies, commodity price volatility, changes in exchange rates, imposition of import controls, increased competition, depletion of resources and labor relations.
- Consumer Discretionary Sector Risk: To the extent ESOTERICA invests in the consumer discretionary sector, it will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the consumer discretionary sector. These companies may be adversely affected by changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, exploration and production spending.
- Financials Sector Risk: Performance of companies in the financial sector may be adversely impacted by many factors, including, among others, government regulations, economic conditions, credit rating downgrades, changes in interest rates, and decreased liquidity in credit markets. The impact of more stringent capital requirements, recent or future regulation of any individual financial company, or recent or future regulation of the financial sector as a whole cannot be predicted.

Securities Market Risk: The value of securities in the portfolio may go up or down, sometimes rapidly or

unpredictably, due to factors affecting particular companies or the securities markets generally. A general downturn in the securities markets may cause multiple asset classes to decline in value simultaneously.

Small and Medium Capitalization Stock Risk: The earnings and prospects of small and medium sized companies are more volatile than larger companies and may experience higher failure rates than larger companies. Small and medium sized companies normally have a lower trading volume than larger companies, which may tend to make their market prices fall more disproportionately than larger companies in response to selling pressures. In addition, small and medium sized companies may have limited markets, product lines, or financial resources and lack management experience.

Conflicts of Interest Risks: Various conflicts of interest are discussed throughout this document. Please review this information carefully and contact ESOTERICA if you have any questions.

Like other investment advisers, ESOTERICA is subject to various conflicts of interest in the ordinary course of its business. ESOTERICA strives to identify potential risks, including conflicts of interest, which are inherent in ESOTERICA's business. When actual or potential conflicts of interest are identified, ESOTERICA seeks to address such conflicts through one or more of the following methods:

- elimination of the conflict;
- disclosure of the conflict; or
- management of the conflict through the adoption of appropriate policies and procedures.

ESOTERICA follows its policies on business ethics, insider trading, personal trading and information barriers. ESOTERICA has adopted a code of ethics (see Item 11), allocation policies and conflicts of interest policies, among others, and has adopted supervisory procedures to assess compliance with our policies. ESOTERICA cannot guarantee, however, that its policies and procedures will detect and prevent, or lead to the disclosure of, each and every situation in which a conflict may arise.

Counterparty Risk: An exchange or over-the-counter ("OTC") counterparty may not settle a transaction in accordance with its terms and conditions, which could result in a loss. There is a risk of trade failure and non-performance by exchanges and OTC counterparties, and such non-performance may result in unrealized trades.

Emerging Market Securities Risk: Investment in securities of emerging market issuers may present risks that are greater than or different from those associated with foreign securities due to less developed and liquid markets and such factors as increased economic, political, regulatory, or other uncertainties.

Equity Securities Risk: The value of equity securities may fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities participate or factors relating to specific companies. An unfavorable earnings report or a failure to make anticipated dividend payments by an issuer may affect the value of the issuer's equity securities. Equity securities may also be particularly sensitive to general movements in the stock market, and a decline in the broader market may affect the value of equity investments.

FinTech Risk: Companies that are developing financial technologies that seek to disrupt or displace established financial institutions generally face competition from much larger and more established firms. FinTech companies may not be able to capitalize on their disruptive technologies if they face political

and/or legal attacks from competitors, industry groups or local and national governments. Laws generally vary by country, creating some challenges to achieving scale. A FinTech company may not currently derive any revenue, and there is no assurance that a FinTech company will derive any revenue from innovative technologies in the future

Fixed Income Securities Risk: The market value of fixed income investments in which the Fund may invest may change in response to interest rate changes and other factors. During periods of falling interest rates, the value of outstanding fixed income securities may rise. Conversely, during periods of rising interest rates, the value of fixed income securities may decline.

Foreign Securities Risk: Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. These additional risks include greater market volatility, the availability of less reliable financial information, higher transactional costs, potentially higher custody costs, taxation by foreign governments, decreased market liquidity and political and economic instability.

Forward Trading Risk: Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors.

Futures, Options, Swaps, and Commodities Risk: The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements and other derivative instruments also may be highly volatile. The risks posed by such derivative instruments and techniques can be extremely complex and may involve significant leverage. The Private Fund may use several option strategies, including put and call options. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold to the Private Fund at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold by the Private Fund at a lower price than its current market value.

Professional Services Company Risk: Professional services companies may be materially impacted by economic conditions and related fluctuations in client demand for marketing, business, technology and other consulting services. Professional services companies’ success depends in large part upon attracting and retaining key employees and a failure to do so could adversely affect a company’s business. There are relatively few barriers to entry into the professional services market, and new competitors could readily seek to compete in one or more market segments, which could adversely affect a company’s operating results through pricing pressure and loss of market share.

Internet Company Risk: Many Internet-related companies have incurred large losses since their inception and may continue to incur large losses in the hope of capturing market share and generating future revenues. Accordingly, many such companies expect to incur significant operating losses for the foreseeable future and may never be profitable. The markets in which many Internet companies compete face rapidly evolving industry standards, frequent new service and product announcements, introductions

and enhancements and changing customer demands. The failure of an Internet company to adapt to such changes could have a material adverse effect on the company's business. In addition, the widespread adoption of new Internet, networking, telecommunications technologies, or other technological changes could require substantial expenditures by an Internet company to modify or adapt its services or infrastructure, which could have a material adverse effect on an Internet company's business.

Semiconductor Company Risk: Competitive pressures may have a significant effect on the financial condition of semi-conductor companies and, as product cycles shorten and manufacturing capacity increases, these companies may become increasingly subject to aggressive pricing, which hampers profitability. Reduced demand for end-user products, under-utilization of manufacturing capacity, and other factors could adversely impact the operating results of companies in the semiconductor sector. Semiconductor companies typically face high capital costs and may be heavily dependent on intellectual property rights. The semiconductor sector is highly cyclical, which may cause the operating results of many semiconductor companies to vary significantly. The stock prices of companies in the semiconductor sector have been and likely will continue to be extremely volatile.

International Closed-Market Trading Risk: Certain securities may trade on an exchange that is closed when the securities exchange on which certain pooled investment vehicles' shares list and trade is open, there are likely to be deviations between the current pricing of an underlying security and stale security pricing (i.e., the last quote from its closed foreign market), likely resulting in premiums or discounts to NAV that may be greater than those experienced by pooled investment vehicles that do not invest in foreign securities.

Issuer Risk: The value of an issuer's equity securities may decline for reasons directly related to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers. A change in the financial condition, market perception or credit rating of an issuer of securities may cause the value of its securities to decline.

Large-Capitalization Companies Risk: Large-capitalization companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of a large- capitalization company may not rise as much as that of a company with a smaller market capitalization.

Liquidity Risk: Certain assets may be difficult (or impossible) to sell at a desired time and at a desired price. As a result, ESOTERICA may need to hold certain assets longer than it would like and may forego other investment opportunities. Liquidity risk can be more pronounced during periods of market turmoil.

Management Risk: ESOTERICA applies investment strategies, techniques and analyses in making investment decisions, but there can be no guarantee that these actions will produce the intended results. The ability of ESOTERICA to successfully implement the investment strategy will significantly influence the performance of an account.

Market Risk: The value of the Funds' assets will fluctuate as the markets in which the Fund invests



fluctuate. The value of the Fund's investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events, including inflation (or expectations for inflation), interest rates, global demand for particular products or resources, natural disasters or events, exchange trading suspensions and closures (including exchanges of a Fund's underlying securities), infectious disease outbreaks or pandemics, terrorism, regulatory events and government controls, that affect large portions of the market.

Market Trading Risk: Market trading risks include losses from trading in secondary markets, the existence of extreme market volatility or potential lack of an active trading market.

Micro-Capitalization Companies Risk: Micro-capitalization companies are subject to substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable (and some companies may be experiencing significant losses). Their share prices tend to be more volatile and their markets less liquid than companies with larger market capitalizations. The shares of micro-capitalization companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these securities and the future ability to sell these securities.

Model Risk: ESOTERICA uses quantitative tools in its research process to analyze securities and to help ESOTERICA make investment decisions. These models may be flawed or incomplete and may not produce the desired results.

Portfolio Turnover Risk: Each investment account that is based on the performance of an index is adjusted to add or delete companies from such accounts once per quarter or upon certain extraordinary events or corporate actions affecting companies that are included in the relevant index. As companies leave and enter the relevant index, accounts based on the index will be adjusted to match the current composition of the relevant index. This process may result in the realization of capital gains or losses and may have adverse tax consequences for you as an investor if such composition changes are not treated as tax free events. Because such accounts will buy and sell securities as needed to maintain their correlation to the relevant index, portfolio turnover in such accounts may be substantial.

Regulation Risk: Laws and regulations affecting ESOTERICA's business change from time to time. ESOTERICA cannot predict the effects, if any, of future legal and regulatory changes on ESOTERICA's business or the services ESOTERICA provides.

Security Selection Risk: The value of an individual security and, similarly, the value of an investment in that security, may rise or fall. ESOTERICA's investment process for a particular strategy may favor specific securities, industries or sectors that underperform investments in other securities, industries, sectors, or the market generally.

Technology and Cyber Security Risks: Investment advisers, including ESOTERICA, must rely in part on digital and network technologies to conduct their businesses and to maintain substantial computerized data relating to client account activities. These technologies include those owned or managed by ESOTERICA as well as those owned or managed by others, such as custodians, financial intermediaries, transfer agents, and other parties to which ESOTERICA or such other parties outsource the provision of services or business operations.

Like all businesses that use computerized data, ESOTERICA and such third parties and the systems

ESOTERICA uses could be subject to a variety of possible cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of confidential computerized data or client data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers mounting an attack on computer systems. ESOTERICA and such third parties maintain an information technology security policy and certain technical and physical safeguards intended to protect the confidentiality of our internal data and take other reasonable precautions to limit the potential for cybersecurity incidents, and to protect data from inadvertent disclosure or wrongful misappropriation or destruction.

Nevertheless, despite reasonable precautions, cybersecurity incidents could occur, and might in some circumstances result in unauthorized access to sensitive information about ESOTERICA or its clients. In addition, such incidents might cause damage to client accounts, data, systems or affect client services.

Furthermore, these systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond ESOTERICA's or others' control. Technology failures, whether deliberate or not, including those arising from use of third-party service providers or client usage of systems to access accounts, could have a material adverse effect on ESOTERICA's business or ESOTERICA's clients and could result in, among other things, financial loss, reputational damage, regulatory penalties or the inability to transact business.

Valuation Risk: Fair value pricing involves subjective judgments and it is possible that a fair value determination for a cryptocurrency is materially different than the value that could be realized upon the sale of the cryptocurrency.

## **ITEM 9 DISCIPLINARY INFORMATION**

Neither ESOTERICA, nor any of its management persons, have been the subject of any material legal or disciplinary action.

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

ESOTERICA is an investment adviser registered with the SEC. As described above, ESOTERICA is the investment adviser and provides management and supervisory services to the ESOTERICA ETF. ESOTERICA's services for the ESOTERICA ETF and other clients can create conflicts of interest in certain circumstances.

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

### **Code of Ethics and Personal Trading**

ESOTERICA has adopted a Code of Ethics in compliance with Rule 204A-1 under the Advisers Act that establishes personal trading guidelines and restrictions applicable to ESOTERICA employees, ESOTERICA consultants, and ESOTERICA employee or consultant family members (including the spouse, minor children and adults living in the same household as the employee or consultant) ("Access Persons"). These guidelines and restrictions must be followed for all transactions in all accounts in which

an Access Persons have a beneficial interest. Access Persons must pre-clear all personal transactions in securities except for certain exempt securities. Access Persons must submit required quarterly reports of securities and all cryptocurrency transactions (or furnish brokerage statements) and must certify, at least annually, receipt of and compliance with the Code of Ethics.

For a copy of ESOTERICA's Code of Ethics please call 1-860-543-3942 or write to: Esoterica Capital LLC, Attn: Chief Compliance Officer, 675, W 59<sup>th</sup> Street, Suite 903, New York, NY 10069

### **Recommendations Involving Material Financial Interests**

ESOTERICA can effect (but not execute) transactions between client accounts. ESOTERICA will not effect a transaction between client accounts if one of the clients is an Employee Retirement Income Security Act of 1974 ("ERISA") client. ESOTERICA can effect transactions between client accounts that are not registered investment companies subject to certain restrictions, including the requirements that ESOTERICA receives no compensation for effecting the transaction and the transaction is disclosed to the clients.

ESOTERICA can effect transactions between clients that are registered investment companies subject to certain restrictions, including the requirement that the transaction is effected in compliance with Rule 17a-7 under the 1940 Act and any applicable procedures adopted by the registered investment company.

### **Investing Personal Money in the Same Securities as Clients**

ESOTERICA employees can, on occasion, buy or sell securities for themselves that ESOTERICA recommends or buys or sells for its client portfolios. However, such transactions cannot be effected when they are believed to be adverse to clients' interests. All such transactions are subject to ESOTERICA's Code of Ethics.

### **Trading Securities at/around the Same Time as Clients**

Subject to pre-clearance requirements under ESOTERICA's Code of Ethics, ESOTERICA employees can engage in a transaction in a security at or around the same time as ESOTERICA buys or sells that same security for its client portfolios. Generally, pre-clearance for an employee transaction typically will not be granted: (i) if the security is included in a client's portfolio, on a day when the security is being considered for purchase or sale by the client; (ii) if the security is not included in a client's portfolio but notice has been given that such security will be added to a client's portfolio, until such time as ESOTERICA completes such transactions for the applicable client's portfolio; or (iii) when the security is being considered by ESOTERICA for purchase or sale for a client. The CCO also reserves the right to revoke pre-clearance any time after it is granted and before the transaction is executed and/or deny pre-clearance of any personal securities or Bitcoin cryptocurrency transaction. Generally, ESOTERICA will not approve an Access Person's pre-clearance request if a client is trading in the same security on the same day as the pre-clearance request.

## **ITEM 12 BROKERAGE PRACTICES**

### **Selection of Broker-Dealers to Execute Transactions in Client Accounts**

## *General Practices*

Clients can give ESOTERICA the authority to determine which broker-dealer will execute transactions. Other clients can select which brokerage firms should execute their transactions.

In exercising investment discretion over client accounts, or in responding to specific client instructions, ESOTERICA normally places orders with broker-dealers to execute transactions for the accounts. Some clients that designate ESOTERICA as the investment manager and/or adviser for their account nonetheless have the ability to place their own trades for their account. Where a client chooses to execute a trade, ESOTERICA is not responsible for the execution or the selection of broker-dealers for such trades.

When clients grant brokerage discretion to ESOTERICA, ESOTERICA's general policy is to use its best efforts to seek to obtain best execution for all client portfolio transactions, taking into account a variety of factors such as:

- the security price;
- the commission rate;
- the size and difficulty of the order and timing of the transaction;
- the experience of the broker-dealer;
- the reliability, integrity, creditworthiness and financial condition of the broker-dealer;
- the general execution, clearance, settlement, responsiveness and operational capabilities of the broker-dealer;
- the confidentiality provided by the broker-dealer;
- the research capabilities of the broker-dealer (e.g., soft-dollar arrangements); and
- the number of trading errors committed by the broker-dealer.

It is not ESOTERICA's policy to seek the lowest available commission rate where it believes that a broker or dealer charging a higher commission rate would offer better overall execution, including for example greater reliability or better price or execution. While ESOTERICA seeks best execution for discretionary transactions, ESOTERICA cannot assure that best execution will be achieved for each client transaction.

For accounts for which ESOTERICA has brokerage discretion, ESOTERICA will maintain a list of approved broker-dealers it will use to place client trades for execution. ESOTERICA's Best Execution Committee will periodically reevaluate these broker-dealers to confirm that they meet ESOTERICA's criteria and standards, including that they provide trade execution services that ESOTERICA views as satisfactory. Upon reevaluation, ESOTERICA's Best Execution Committee has the ability to add or remove broker-dealers to or from the list of approved broker-dealers. Periodically, ESOTERICA's Best Execution Committee compares the cost and quality of services of broker-dealers not on ESOTERICA's list of approved broker-dealers.

ESOTERICA pays, or be deemed to pay, commission rates higher than it might otherwise pay to receive research or brokerage services that ESOTERICA views as beneficial to client accounts. Research or brokerage services ESOTERICA receives for conducting transactions in a client account can benefit other accounts and it is possible that a particular account will not benefit from services obtained because of transactions conducted through that account. ESOTERICA will not attempt to track or allocate the benefits of research or brokerage services it receives to the commissions associated with a particular account or

group of accounts. Additionally, certain clients could bear more of the cost of soft dollar arrangements than other clients. Soft dollar arrangements are discussed in more detail below.

### *Evaluating Reasonableness of Brokerage Commissions*

ESOTERICA will periodically evaluate the reasonableness of commission rates in the marketplace for transactions executed on its clients' behalf. ARK will consider:

- the rates other institutional investors are paying, based on available public information;
- the rates quoted by brokers and dealers;
- the size of a particular transaction, in terms of the number of shares, dollar amount, and number of clients involved;
- the complexity of a particular transaction relative to execution and settlement;
- the level and type of business done with a particular firm over a period of time; and
- the extent to which the broker or dealer has capital at risk in the transaction.

Some of ESOTERICA's clients have the ability to select a broker-dealer to act as custodian for the client's assets and direct ESOTERICA to execute transactions through that broker-dealer. It will not be ESOTERICA's practice to negotiate commission rates with those broker-dealers.

### *Description of Research Services Received from Broker-Dealers*

ESOTERICA will be in a position to receive a wide range of research services from broker-dealers. These services can include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. ESOTERICA will be in a position to receive research services primarily as written reports, computer generated services, and personal meetings with security analysts. Research services can also take the form of meetings arranged with corporate and industry spokespersons, economists, academicians and government representatives.

### *Commissions to Brokers Who Furnish Research Services*

ESOTERICA has a brokerage allocation policy embodying the concepts of Section 28(e) of the Securities Exchange Act of 1934, as amended ("1934 Act"). This section permits an investment adviser to pay a broker-dealer that "provides brokerage and research services" to the adviser commission rates in excess of the amount another broker-dealer would charge for effecting the same transaction, if the adviser determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided, viewed in terms of either that particular transaction or the adviser's overall responsibilities to that client or other client accounts and over which the adviser exercises investment discretion.

ESOTERICA may enter into arrangements whereby it obtains research products and services, in addition to brokerage services, from broker-dealers in exchange for directing client trades to such brokers. These arrangements are known as "soft dollar" arrangements and are common in the financial services industry. For example, ESOTERICA can use commissions from transactions for client accounts to obtain quotation

equipment and tools that may assist ESOTERICA in trade execution or provide ESOTERICA with important market related news and developments. The research products and services can either be proprietary (created and provided by the broker-dealer) or third party (created by a third party but provided to ESOTERICA by the broker) and may include:

- economic research;
- industry, security and company research;
- statistical information
- accounting and tax law interpretations;
- political/legal developments
- pricing and appraisal research
- industry and company computer screening ability;
- technical research;
- commodity research;
- portfolio management research;
- stock and bond quote services; and/or
- financial news and other publications.

In accordance with Section 28(e), ESOTERICA, in collaboration with Interactive Brokers LLC and its soft-dollar review software platform, will seek to ensure that all soft dollar arrangements pay for bona fide research services. In some cases, the products or services ESOTERICA receives will not be used exclusively for research purposes. For example, certain systems and products that can be used by ESOTERICA provide “mixed use” functions, such as accounting and record keeping, in addition to investment research. In those cases, ESOTERICA will not pay for the non-research portion of any “mixed use” service through any soft dollar arrangement. Instead, ESOTERICA will pay hard dollars for the non-research function. These services benefit ESOTERICA because ESOTERICA does not need to produce or pay for such research services, and as a result, the receipt of research in exchange for soft dollars creates a conflict of interest. ESOTERICA is incentivized to select or recommend a broker- dealer based on ESOTERICA’s interest in receiving research services, among the other factors that ESOTERICA considers. ESOTERICA will not agree to direct a specific amount of brokerage transactions or commissions to any broker-dealer in return for soft dollar or other benefits.

#### *Directed Brokerage and Commission Recapture*

Clients not subject to ERISA can direct ESOTERICA in writing to execute transactions with one or more specific broker-dealers at commission rate or rates agreed upon by the client and the broker-dealer(s). A client can direct ESOTERICA to use a particular broker-dealer for a variety of reasons, including:

- the client’s relationship with the broker-dealer;
- the client’s evaluation of the broker-dealer and the quality of its trade execution;
- the discounts or other benefits the client receives from the broker-dealer; and/or
- the existence of a commission recapture program where the client receives the benefit of rebates or other benefits separately negotiated between the client and the broker-dealer.

Clients subject to ERISA must provide ESOTERICA with written instructions directing ESOTERICA to execute transactions with one or more specific brokers. The written notice must state that the services the

broker(s) provide and the commission rate or amount is consistent with ERISA provisions and in the client's best interest. If a client account is subject to ERISA and the client directs ESOTERICA to place all transactions for the client's account with a particular broker-dealer, the following apply:

- the client retains and accepts sole responsibility for determining whether the directed brokerage arrangement is reasonable in relation to the benefits the plan receives;
- the client acknowledges and represents to ESOTERICA that the directed brokerage arrangement is used solely and exclusively for the plan's and the participants' benefit; and
- the client acknowledges and represents to ESOTERICA that the directed brokerage arrangement is permissible under the plan's governing documents.

When a client directs ESOTERICA to use a particular broker-dealer, ESOTERICA cannot negotiate commission levels or obtain discounts. It is possible that clients who direct ESOTERICA to use a particular broker-dealer will not receive commission rates or execution of transactions as favorable as clients who give ESOTERICA full discretion to select the broker-dealer for portfolio transactions. Clients who direct ESOTERICA to use a particular broker-dealer could also incur other transaction costs or greater spreads or, receive less favorable net prices on transactions for their accounts. Moreover, when a client directs ESOTERICA to use a particular broker-dealer, it is possible that ESOTERICA will not be able to aggregate the client's securities transactions, to the extent that ESOTERICA aggregates trades, with those of other clients, and therefore would not be able to obtain the potential efficiencies from trade aggregation, unless the directed broker-dealer accepts "step-out" transactions.

Some clients can direct ESOTERICA to use a particular broker-dealer as long as that broker-dealer is reasonably able to provide best price and execution for the portfolio's transactions. ESOTERICA uses its best efforts to accommodate client requests. This type of program where the client can have a consulting or other relationship with the designated broker-dealer is sometimes referred to as "commission recapture" program.

## **Side-by-Side Management, Aggregation and Allocation Policies**

### *Side-by-Side Management*

To mitigate the conflicts of interest that can arise as a result of ESOTERICA managing multiple types of clients, ESOTERICA intends to do a daily trade rotation by strategy and underlying strategy accounts whereby priority of which strategy and strategy account trades first will be executed in a pre-determined cycle. Additionally, for ESOTERICA's weekly traded accounts where ESOTERICA is managing multiple types of clients, there will be a weekly rotation of the underlying strategy accounts. In circumstances where weekly traded accounts are traded more frequently, the accounts will be added to the daily trade rotation as a means to seek to avoid any conflict of interest. The portfolio manager can reasonably deviate from ESOTERICA's daily, side-by-side management trading policy if the portfolio manager determines that such deviation is consistent with seeking best execution in light of the circumstances. The portfolio manager and/or Trading will document and report to the CCO any material deviation from the above-stated policy. ESOTERICA does not deem raising cash to bring a strategy account's cash balance to an acceptable level as determined by the portfolio manager/Trader (or where a cash account lacks available cash) to be a deviation of the trade rotation policy. ESOTERICA also does not deem the periodic

rebalancing of certain portfolios and, the buyback of the appropriate portion of a fully exited security holding in order to satisfy an ETF Creation Unit redemption security basket, to be a deviation of the trade rotation policy.

The portfolio manager generally reviews each of the investment strategies and respective accounts separately and non-concurrent with other managed investment strategies and accounts. As a result, transactions for such clients might not be executed in an aggregated order, and therefore a client could receive different prices which could be more or less than the price a client would have received had accounts been reviewed collectively and orders aggregated. This can create performance dispersions within accounts with the same or similar investment strategy. ESOTERICA believes that over time such an approach does not unfairly disadvantage any client versus another.

When it has been determined that multiple orders will not be aggregated, ESOTERICA has adopted procedures that seek to ensure fair treatment of client accounts. Generally, trading orders are processed and executed in the order received by investment strategy and account following the trade rotation parameters. This can result in multiple trading orders relating to the same security but for different accounts occurring at different times. A conflict of interest could arise if transactions in one account closely follow related transactions in a different account, such as when a purchase increases the value of securities previously purchased by another account or when a sale in one account lowers the sale price received in a sale by a second account. A determination can be made not to aggregate orders for a number of reasons, including: the account's governing documents do not permit aggregation; a client has directed that trades be executed through a specific broker dealer or applicable law or regulation prohibits a client's account from executing trades through a specific broker- dealer; aggregation is impractical because of specific trade directions received from the portfolio manager, e.g., a limit order; the order involves a different trading strategy, e.g., it is part of a large basket, program or index trade; or if we otherwise determine that aggregation is not consistent with seeking best execution.

### *Aggregation*

Where ESOTERICA has discretion, ESOTERICA can determine that the purchase or sale of a particular security is appropriate for more than one client account and can aggregate client orders into one order ("Block Orders") for execution purposes. Block trading can avoid the adverse effect on a security's price when simultaneous separate and competing orders are placed. When aggregating orders and subsequently allocating Block Orders (purchases and sales) to individual client accounts, it is ESOTERICA's policy to treat all clients fairly and to achieve an equitable distribution of aggregated orders.

### *Allocation*

In Block Orders, all non-holders of a given security are initially included to receive approximately equal percentage position sizes in Block Order allocations prior to purchase orders being placed. All holders of a given security are initially included in Block sale allocations prior to the orders being placed. Price averaging is used for trades executed in a series of transactions on the same day in the same theme with the same broker.

Where ESOTERICA has discretion for Block Orders, we will first seek to allocate Block Orders on a pro rata basis. In the event of a partial fill of a Block Order, client accounts will receive an approximate pro rata allocation if there are enough shares executed for each account. For example, if ESOTERICA placed



an order for 20,000 shares and 10,000 shares were executed, ESOTERICA would prorate the shares so that each account would get approximately half of what was entered. If for the same 20,000 shares order, ESOTERICA only executed a de minimis number of shares (for example, 1,000 shares), ESOTERICA generally would allocate the shares to accounts that had high cash (in the case of a purchase) or low cash (in the case of a sale). On the following day, ESOTERICA would repeat the order until all accounts received the intended allocation. Other possible criteria for allocating Block Orders include the current concentration of holdings of the industry in question in the account.

Some types of purchase or sale transactions cannot be included in Block Orders. For instance, trades resulting from the opening and closing of accounts, or from contributions to or withdrawals from existing accounts, often must be executed on an individual basis rather than aggregated with other trades. In such cases, clients might not receive as favorable executions as they might otherwise receive from Block Orders.

### *Initial Public Offerings and New Issues*

Some of ESOTERICA's investment themes can identify securities in initial public offerings ("IPOs") or "new issues" ("New Issues") as defined in relevant rules established by the Financial Industry Regulatory Authority ("FINRA") as part of their investment theme. Allocations of IPOs and will be made fairly and in accordance with FINRA Rule 5130. Only accounts that are eligible under FINRA Rule 5130 to participate in IPO allocations will be permitted to receive such allocations. Because the market for IPOs is uneven, a portfolio manager's ability, or inability to participate in IPO allocations can have a potentially significant effect on account performance, and the shares themselves are often subject to greater volatility.

With respect to eligible accounts, ESOTERICA generally will allocate securities purchased through an IPO or New Issues on a pro rata basis for each eligible account in an investment strategy. In situations where the securities allotment is insufficient to provide meaningful position sizes, ESOTERICA can allocate the securities on a rotating basis to as many accounts as practical. The portfolio manager will oversee allocations ensuring that over time, all eligible accounts will have an equitable opportunity to participate in IPOs and New Issues. If an investment theme's performance in a given year receives a substantial benefit from profitable IPO or New Issue allocations, ESOTERICA might be unable to duplicate that performance in the succeeding year, because the IPO or New Issue market could have shrunk, or because ESOTERICA's selections prove unsuccessful. The IPO market is risky and volatile, and clients should be willing to tolerate a higher degree of risk.

Accounts with directed brokerage will not receive allocations of securities purchased in IPOs or New Issues if the underwriting syndicate does not include a broker-dealer that the client has directed ESOTERICA to use. Generally, ESOTERICA will only allocate securities purchased in IPOs or New Issues to accounts for which ESOTERICA has discretion to select broker-dealers for transaction executions.

### **Trade Errors**

When ESOTERICA is responsible for a trading error, ESOTERICA's policy is to make the client whole by correcting the error, i.e., restoring the client's account to the position it would have been in if the error had not occurred, unless the error is so small (i.e., less than \$100) that correcting the error would cost more the amount of such error. ESOTERICA exercises due care in making and implementing investment decisions on behalf of its clients and recognizes its obligation to identify and resolve trade errors in a

timely manner. ESOTERICA seeks to avoid errors; however, ESOTERICA monitors for errors and if an error occurs, ESOTERICA will endeavor to correct and reduce similar errors in the future. ESOTERICA will use reasonable efforts to cause any broker or other service provider which is responsible for a trade error to reimburse affected clients for any losses resulting from the trade error. To the extent that a trade error is attributable to the willful misconduct, negligence or fraud of ESOTERICA, ESOTERICA will restore the client to a position that is no worse than if the trade error had not occurred. Any trade error that results in a direct loss will be reimbursed to the client account in which the error was made. If a trade error results in a gain, the gain generally will accrue to the benefit of the affected client account(s).

## **ITEM 13 REVIEW OF ACCOUNTS**

### **Frequency and Nature of Periodic Account Reviews**

The ESOTERICA Team, including its Portfolio Manager, Chief Investment Officer, Chief Operating Officer, Chief Compliance Officer and analysts, will monitor each client account and fund on a regular basis to seek to ensure portfolio level compliance (adherence to investment strategy and client guidelines) and to determine whether to take any action for that account based on its investment objective, strategy or strategies, guidelines, policies, and restrictions and, more generally, based on ESOTERICA's review of economic and market conditions. For separately managed accounts, ESOTERICA will review each such account as agreed to with the client.

The timing and nature of account reviews for the ESOTERICA ETF are further dictated by regulatory requirements including but not limited to the 1940 Act, Internal Revenue Code of 1986, as amended, and each ESOTERICA ETF's respective prospectus limitations and internal guidelines. The ESOTERICA ETF is reviewed by their third-party administrator and the Esoterica Thematic Trust's and ESOTERICA's CCO.

### **Factors that Will Trigger a Non-Periodic Review of Separately Managed Accounts**

Factors that will dictate the timing and nature of separately managed account reviews will include the following: contributions or withdrawals of cash from an account; a determination to change an account's cash level; a client's request for tax-loss selling; a client's direction to refrain from purchasing a particular security or class of securities for such client's account; a client's request for information regarding the performance or structure of an account; changes in the investment objectives, strategy or strategies, guidelines, investment policies or investment restrictions; account performance; a client's pledge of an account's assets as collateral security; and requirements imposed by court order or regulatory decree (SEC, Department of Labor, etc.).

### **Content and Frequency of Regular Reports**

For each separately managed account, ESOTERICA will provide, either directly or through a designated third party, all information it has agreed to provide to each such client and other persons or entities that they designate.

ESOTERICA provides written reports to the Board of Trustees of the Esoterica Thematic Trust at least four times each calendar year. Shareholder reports are issued in accordance regulatory requirements.

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

### **Economic Benefits Provided by Third Parties**

In transactions that involve brokerage commissions, as permitted by Section 28(e) of the 1934 Act, ESOTERICA can cause a client to pay a broker-dealer that provides “brokerage and research services” (as defined in the 1934 Act) a disclosed commission for effecting a securities transaction for the client in excess of the commission which another broker-dealer would have charged for effecting that transaction without the brokerage and research services. Other fees are disclosed more fully in Item 5 and other conflicts of interest with regard to the receipt of soft dollars are disclosed more fully in Item 12.

ESOTERICA engages in activities designed to educate consultants, broker-dealers, and other financial intermediaries (collectively, “Consultants”) about its advisory services. These activities include sponsoring educational events or conferences where ESOTERICA’s representatives meet with Consultants and sometimes their clients. ESOTERICA uses its own resources to pay for part of the costs associated with educational events. Clients who desire additional information about payments to particular Consultants should contact ESOTERICA or the Consultant.

### **Compensation to Non-Advisory Personnel for Client Referrals**

ESOTERICA may enter into written solicitation agreements with certain entities that introduce prospective clients to ESOTERICA. Under these agreements, the solicitor receives compensation related to the investment management fees ESOTERICA receives from certain investment management clients who engage ESOTERICA during the term of the agreement. As a result of these arrangements, a solicitor has a financial incentive to recommend ESOTERICA to a client which the solicitor might not otherwise recommend if there was no payment. ESOTERICA enters into solicitation agreements, and pays fees under these agreements, in accordance with Rule 206(4)-3 and, where the solicitation involves certain state or municipal entities, Rule 206(4)-5 under the Advisers Act. ESOTERICA’s solicitors include entities that hold an indirect, non-controlling interest in ESOTERICA.

Additionally, ESOTERICA makes payments to the distributor of the ESOTERICA ETFs to provide certain marketing services for the ESOTERICA ETFs. ESOTERICA makes these payments from its own resources. In addition, the ESOTERICA ETFs currently do not, but could in the future, reimburse ESOTERICA for amounts it pays pursuant to plans and agreements that are adopted by the ESOTERICA ETFs pursuant to Rule 12b-1 under the 1940 Act (“Rule 12b-1 Fees”). The prospectuses and Statement of Additional Information for the ESOTERICA ETFs contain information about Rule 12b-1 Fees.

ESOTERICA makes payments to select financial intermediaries and/or firms that are strategic partners of ESOTERICA in connection with (i) the sale of shares of the ESOTERICA ETFs and/or interests in other investment advisory products and services provided by ESOTERICA and (ii) the servicing of the accounts of shareholders in the ESOTERICA ETFs or investors in other investment advisory products or services. Such payments are made by ESOTERICA and are not made or reimbursed by the ESOTERICA ETFs. ESOTERICA receives benefits for making these payments including: placing the ESOTERICA ETFs on the financial advisor’s funds sales system, possibly placing the ESOTERICA ETFs on the financial intermediary’s preferred or recommended fund list, and access (in some cases on a preferential basis over other competitors) to individual members of the financial intermediary’s sales force or to the financial intermediary’s management. ESOTERICA compensates financial intermediaries differently depending on

the level and/or type of services the financial intermediary provides.

## **ITEM 15 CUSTODY**

Due to certain potential fee billing arrangements, ESOTERICA might be deemed to have “custody” of certain client accounts within the meaning of Rule 206(4)-2 under the Advisers Act. If ESOTERICA is deemed to have custody over a client’s account, the client’s custodian will send the client periodic account statements (generally on a quarterly basis) indicating the amounts of any funds or securities in the client’s account as of the end of the statement period and any transactions in the account during the statement period. ESOTERICA encourages all its clients to review the custodial reports they receive directly from their broker-dealers, banks or other custodians, and to compare such reports to the reports, if any, they receive from ESOTERICA. Additionally, clients should contact ESOTERICA immediately if they do not receive account statements from their custodian on at least a quarterly basis.

## **ITEM 16 INVESTMENT DISCRETION**

ESOTERICA accepts discretionary authority to manage securities accounts on behalf of its clients. Before accepting discretionary authority, ESOTERICA enters into a written Advisory Agreement with a client. In the case of a client with a separately managed account, this Advisory Agreement can include investment guidelines or similar documents describing the client’s investment objective, strategy or strategies, policies, practices (e.g., securities lending), limitations, and restrictions on ESOTERICA’s management of the account, and a benchmark. See Item 4, “Advisory Business,” for examples of the types of limitations and restrictions that a client can impose.

ESOTERICA reserves the right not to enter into an Advisory Agreement with a prospective client, or to terminate an Advisory Agreement with an existing client, if any proposed limitation or restriction is, in ESOTERICA’s opinion, likely to impair ESOTERICA’s ability to appropriately provide services to a client or ESOTERICA otherwise believes the limitations or restrictions to be operationally impractical or unfeasible. Certain investment restrictions can limit ESOTERICA’s ability to execute the investment strategy and reduce the account’s performance as a result.

ESOTERICA exercises discretionary authority with respect to the ESOTERICA ETF in accordance with the investment objective, strategies, policies, practices, limitations, and restrictions set forth in the ESOTERICA ETF’ prospectus and Statement of Additional Information, which are publicly available at [www.esotericacap.com/our-solutions](http://www.esotericacap.com/our-solutions), on the EDGAR Database on the SEC’s website ([www.sec.gov](http://www.sec.gov)) or by contacting ESOTERICA ETF’s principal underwriter, Foreside Fund Services, LLC at Three Canal Plaza, Suite 100, Portland, ME 04101 or by calling 866-979-1710.

## **ITEM 17 VOTING CLIENT SECURITIES**

ESOTERICA recognizes its fiduciary responsibility to vote proxies solely in the client’s best interests. ESOTERICA has adopted a Proxy Voting Policy as a means reasonably designed to ensure that ESOTERICA votes any shares owned by clients, which have delegated discretionary proxy voting authority to ESOTERICA, in the best interest of the clients considering all relevant factors and without regard to the interests of ESOTERICA or other related parties. For purposes of ESOTERICA’s Proxy Voting Policy, the “best interests of clients” means (unless with respect to a particular client, such client has otherwise specified) the clients’ best economic interests over the long term, that is, the common

interest that all clients share in seeing the value of a common investment increase over time. ESOTERICA will accept directions from a client to vote the client's proxies in a manner that could result in its proxies being voted differently than ESOTERICA might vote proxies of other clients over which ESOTERICA has full discretionary proxy voting authority. ESOTERICA believes such client directions are client selected guidelines and ESOTERICA's Proxy Voting Policy does not generally apply to customized proxy voting guidelines. Of course, clients can choose to vote their own proxies or to have a firm other than ESOTERICA vote their proxies for them.

ESOTERICA has retained Interactive Brokers LLC and their processing agent Mediant Communications ("Mediant") to provide proxy voting agent services. In order that proxy ballots received for securities held in ESOTERICA client accounts are submitted in a timely manner and accordingly, ESOTERICA will require that the client provides ESOTERICA with a Supplemental Power of Attorney to do so.

## **ITEM 18 FINANCIAL INFORMATION**

ESOTERICA does not require or solicit pre-payment of fees six months or more in advance and its financial condition is not such that it is reasonably likely to impair its ability to meet contractual commitments to clients.

## **ADDITIONAL INFORMATION**

### **Privacy Policy**

ESOTERICA is committed to protecting the confidentiality of information clients send to us. Regulation S-P adopted by the SEC requires that we provide the following information to you.

Information about you that we collect: We can collect non-public personal information about you and your transactions from the following sources: your account forms, through our website, through your transactions with us or others, email and social media.

How we use your information: As permitted by law, we can share information about you with non-affiliated third parties that provide services to us or as necessary to service your account. These parties have agreed to treat your information as confidential and not to share such information with other parties. Otherwise, we do not disclose your non-public personal information unless authorized by you in writing or as otherwise permitted by law. This policy applies to non-public information about current, former or prospective clients who are natural persons.

How we protect your confidential information: ESOTERICA has policies that restrict access to your non-public personal information to employees who need the information to provide investment services to you. We maintain physical, electronic and procedural safeguards to protect your non-public personal information.

# ESOTERICA

## **Part 2B of FORM ADV Brochure Supplement**

### **Esoterica Capital LLC**

675 West 59th Street,  
Suite 903  
New York, NY 10069  
1-860-543-3942  
[www.esotericacap.com](http://www.esotericacap.com)

December 31, 2020

QINDONG LIU

This Brochure Supplement provides information about QINDONG LIU that supplements the Esoterica Capital LLC ("ESOTERICA") Brochure. You should have also received a copy of the Brochure. Please contact us at 1-860-543-3942 or through [www.esotericacap.com/contact](http://www.esotericacap.com/contact) if you did not receive ESOTERICA's Brochure or if you have any questions about the contents of this supplement.

**Name: QINDONG LIU**

## **Item 2- Educational Background and Business Experience**

### Formal education after high school:

Ph.D. in Business Administration from the University of Connecticut School of Business  
B.E. in Electrical Engineering from Beijing Institute of Technology

### Business background and experience for preceding years:

Esoterica Capital LLC	2019-present	Chief Executive Officer
PhaseCapital	2017-2019	Partner and Portfolio Manager
WisdomTree Asset Management	2015-2017	Equity Strategist
AllianceBernstein	2013-2015	Equity Research Strategist
Dow Chemical	2010-2013	Investment Analyst

## **Item 3 - Disciplinary Information**

None

## **Item 4 - Other Business Activities**

None

## **Item 5 - Additional Compensation**

Qindong Liu will receive a salary, and is the co-owner of ESOTERICA, and may receive earnings from ESOTERICA. He may also receive a bonus based on the quality of the advisory services and the overall financial performance of ESOTERICA.

## **Item 6 - Supervision**

Qindong Liu is a Member of ESOTERICA's Board of Managers ("Board"). The Board has oversight of ESOTERICA's various business-related and non-investment matters. Also, Qindong Liu is a supervised person of ESOTERICA under its Code of Ethics. Qindong Liu is also obligated to comply with ESOTERICA's Compliance Manual and Code of Ethics in terms of his conduct and activities.