

**Item 1  
Cover Page**

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

**Perini Capital LLC**

**July 8, 2021**

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Perini Capital LLC  
20645 North Pima Road, Suite N-230  
Scottsdale, Arizona 85255  
[www.perinicapital.com](http://www.perinicapital.com)

This brochure (the “*Brochure*”) provides information about the qualifications and business practices of Perini Capital LLC. If you have any questions about the contents of this Brochure, please contact Perini Capital LLC’s Chief Compliance Officer, Jesse Silver, by email at [JSilver@perinicapital.com](mailto:JSilver@perinicapital.com).

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “*SEC*”) or by any state securities authority. Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

Additional information about Perini Capital LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The firm CRD # is 158540.

THIS BROCHURE DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY.

## **Item 2**

### **Material Changes**

This Brochure dated July 8, 2021, has been updated to reflect (i) the new address of Perini Capital LLC's ("*Perini Capital*" or the "*Firm*") principal place of business: 20645 North Pima Road, Suite N-230, Scottsdale, Arizona, 85255 and (ii) the updated contact information of Perini Capital's newly appointed Chief Compliance Officer, Jesse Silver.

This updated Brochure amends Perini Capital's last annual update (which was made on March 26, 2021).

Perini Capital recommends that you read this Brochure in its entirety. If Perini Capital makes any material changes to this Brochure, this item will be revised to include a summary of such changes.

### **Item 3**

## **Table of Contents**

Item 1 Cover Page.....	i
Item 2 Material Changes.....	ii
Item 3 Table of Contents.....	iii
Item 4 Advisory Business .....	1
Item 5 Fees and Compensation .....	3
Item 6 Performance-Based Fees and Side-By-Side Management .....	5
Item 7 Types of Clients.....	6
Item 8 Method of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9 Disciplinary Information .....	25
Item 10 Other Financial Industry Activities and Affiliates .....	26
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ...	28
Item 12 Brokerage Practices .....	30
Item 13 Review of Accounts.....	32
Item 14 Client Referrals and Other Compensation.....	33
Item 15 Custody .....	34
Item 16 Investment Discretion.....	35
Item 17 Voting Client Securities.....	36
Item 18 Financial Information .....	37
Item 19 Requirements for State-Registered Advisers.....	38

## **Item 4**

### **Advisory Business**

#### **A. General Description of Advisory Firm**

Perini Capital LLC (referred to as “*Perini Capital*” or the “*Firm*”), a New Mexico limited liability company, was founded in 2011 and is wholly owned by Michael D. Perini, CFA. Perini Capital serves as the investment manager to private fund clients and separately managed accounts. As President and Chief Executive Officer of the Firm, Mr. Perini is primarily responsible for the portfolio management of Perini Capital’s clients. The Firm’s principal place of business is in Scottsdale, Arizona.

#### **B. Description of Advisory Services**

Perini Capital provides investment advisory services on a discretionary basis to Perini Capital Structured Credit Opportunity Fund, LLC, a Delaware limited liability company (the “*Fund*”). Perini Capital Partners, LLC, an affiliate of the Firm, acts as the managing member of the Fund.

The Firm also provides investment advisory services on a discretionary basis to certain separately managed accounts (“*SMAs*”) pursuant to a strategy similar to that of the Fund. References throughout this document to “*Clients*” refer to the Fund, the SMAs, and to any other private funds and separately managed accounts Perini Capital may advise in the future.

In providing services to its Clients, Perini Capital seeks to maximize total return by pursuing a strategy focused primarily on opportunities in non-investment grade, non-agency mortgage-backed securities, other mortgage industry related securities and credit-driven special situations (including investments in domestic equity securities and option contracts).

#### **C. Tailored Advisory Services for Client Accounts**

Perini Capital manages assets in accordance with the stated investment objectives of each Client, as described in any relevant investment management agreement or similar agreement (an “*IMA*”) or in an offering memorandum or a Client’s organizational documents (together with the IMA and the offering memorandum, the “*Offering Documents*”). Perini Capital does not tailor its advisory services to the individual needs of investors in the Fund (“*Fund Investors*”) and generally does not accept Fund Investor-imposed investment restrictions. Perini Capital’s SMAs may be subject to investment objectives, guidelines and restrictions, fee arrangements and other terms individually negotiated with each such separate account holder.

#### **D. Wrap Fee Programs**

Perini Capital does not currently participate in wrap fee programs.

#### **E. Assets Under Management**

As of December 31, 2020, Perini Capital had regulatory assets under management of \$152,110,000, all managed on a discretionary basis.

## **Item 5**

### **Fees and Compensation**

#### **A. Advisory Services and Fees**

The fees and compensation applicable to each Client are set forth in detail in the respective Offering Documents and/or IMA. A brief summary of such fees and compensation is provided below.

##### Management Fee

Perini Capital is generally paid an investment management fee (the “*Management Fee*”) of 1.50% per annum of the net asset value attributable to the capital account of each Fund Investor or the net asset value of each SMA during the relevant time period.

Perini Capital in its sole discretion, may waive or reduce the Management Fee for any Fund Investor or SMA account holder.

##### Incentive Fee or Allocation

At the end of each fiscal year, Perini Capital, through its affiliate, will be entitled to receive an incentive allocation based on the performance of the Fund (the “*Incentive Allocation*”) generally in the amount of 20% of the net profit (after payment of the applicable Management Fee) for the year, subject to a high watermark, as described in the applicable Offering Documents.

SMA Account holders, at the end of each calendar quarter, pay Perini Capital an amount (the “*Incentive Fee*”) that is equal to 20% of the SMA’s Realized Return less any Net Unrealized Losses for the quarter. “Realized Return” is the change in the value of the account for the quarter not caused by changes in the market price of the securities. “Net Unrealized Losses” (unrealized losses greater than unrealized gains) will be deducted from any Realized Return. If there is not a positive Realized Return net of Net Unrealized Losses for the period, no Incentive Fee will be charged. Any Realized Return not charged an Incentive Fee due to Net Unrealized Losses in a period are carried forward to the next billing period. Net unrealized gains (unrealized gains greater than unrealized losses for the account) are not included in the Incentive Fee calculation.

Perini Capital and its affiliates, in their sole discretion, may waive or reduce the Incentive Allocation for any Fund Investor or the Incentive Fee of any SMA account holder.

#### **B. Payment of Fees**

The Management Fee for the Fund is paid quarterly in advance. The Management Fees for the SMAs are paid in arrears based on the net asset value of the SMA on the last business date of the previous calendar quarter. Incentive fees or allocations are paid in arrears as set forth in a Client’s Offering Documents and/or IMA.

**C. Additional Expenses**

The fees described above are exclusive of other expenses associated with the provision of investment advisory services that are paid by Clients. Unless stated otherwise in a Client's Offering Documents and/or IMA, each Client generally bears all of its own expenses, including but not limited to expenses related to its operations and the investment of its assets.

Each Client shall bear those expenses as set forth in the applicable Offering Documents and/or IMA, as amended from time to time, including but not limited to some or all of the following: brokerage commissions, investment-related costs and expenses, including research and software analytical tools, bank charges and borrowing costs, all costs and expenses incurred in attempting to protect and enhance the value of any Client investment (including any fees and expenses associated with any pending or threatened litigation, audit, investigation, administrative or other proceeding, as well as any settlement costs), accounting expenses, portfolio management software costs, legal and auditing expenses, third-party administration, outsourced middle- and back-office expenses, printing, reporting and mailing expenses, tax preparation costs, escrow expenses, insurance premiums and custody expenses).

To the extent that expenses to be borne by a Client are paid by Perini Capital, the Client will reimburse Perini Capital for such expenses.

To the extent that Client expenses are attributable to multiple Clients, Perini Capital will generally allocate such expenses *pro rata* based upon the respective net asset values of such applicable Clients, the size of the investment made by each Client to which such expense relates (if applicable), or in such other manner as Perini Capital and its affiliates consider fair and equitable.

**D. Prepayment of Fees**

The Management Fee for the Fund is paid quarterly in advance. The Management Fee for the SMAs is paid quarterly in arrears based on the net asset value of the SMA on the last business date of the previous calendar quarter. The initial Management Fee for the SMA will be prorated for the number of days remaining in the quarter.

If an account holder chooses to liquidate a SMA, once the account is liquidated, the SMA will pay an Incentive Fee if there is a positive Realized Return from the previous billing period.

**E. Additional Compensation and Conflicts of Interest**

Neither Perini Capital nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

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

Perini Capital, directly or indirectly, receives performance-based fees or allocations from the Fund and certain SMA Clients. Such performance-based fees or allocations are in compliance with Rule 205-3 under the Investment Advisers Act of 1940 (the “*Advisers Act*”).

There are instances in which Perini Capital manages Clients in the same strategy or substantially similar strategy that have different fees paid by different Clients, which includes the side-by-side management of accounts with performance-based fees and management fees. The performance-based incentive fees or allocations paid to Perini Capital and/or its affiliate may create an incentive for Perini Capital to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect. These conflicts are disclosed in the Fund’s Offering Documents and are believed to be understood by Perini Capital’s Clients.



## **Item 7**

### **Types of Clients**

Perini Capital provides investment advisory services to the Funds and the SMAs.

Fund Investors and separate account holders of the SMAs may include individuals, high net worth individuals, family offices, fund of funds, endowments, foundations, trusts, charitable organizations, pension funds, corporate business entities, and other sophisticated investors. The Funds typically require a minimum initial investment of \$1,000,000, subject to the discretion of Perini Capital to accept a lower amount. Fund Investors generally must be “*Accredited Investors*” and “*Qualified Clients*” (as defined under federal securities laws).

The minimum account size for a SMA engagement is currently \$10 million, however, Perini Capital has agreed to and may agree to in the future to advise SMAs with assets below this minimum.

**Item 8**  
**Method of Analysis, Investment Strategies and Risk of Loss**

**A. Methods of Analysis and Investment Strategies**

Perini Capital seeks to maximize total return for its Clients while minimizing risk primarily by investing on behalf of the Clients in non-investment grade, non-agency mortgage-backed securities and other mortgage industry-related securities and credit-driven special situations (including equity securities of U.S. companies). Total return may be comprised of income and capital appreciation. Investment decisions are based on a fundamental analysis, including a prepayment and credit analysis, as applicable, and such analysis is conducted via an in-depth review of the collateral and structural features of the security.

Clients typically hold a concentrated portfolio of a limited number of securities and may invest a significant portion or all of the assets of a Client's portfolio in mortgage-backed and mortgaged-related securities at Perini Capital's discretion. In addition, Clients may invest, at any time and from time to time, up to 100% of its assets in non-investment grade, non-agency backed securities.

Perini Capital seeks to minimize risk by maintaining a portfolio construction that achieves lower bound return targets without a reliance on an exit price. Perini Capital may employ both active trading and buy-and-hold strategies.

In addition, the Fund may use leverage as part of its investment strategy, including, without limitation, through the use of repurchase agreements and other means of borrowing.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies**

The investment program pursued by Perini Capital on behalf of the Clients is speculative and involves substantial risks. There can be no assurance that Clients will achieve their investment objectives. As a result of the inherent riskiness and uncertainty of an investment in the Clients, such investment involves the risk of loss of some or all of an Investor's investment.

**Risk Factors**

Prospective investors should carefully consider the risks involved in an investment in a Client, including, but not limited to, those discussed below. For a complete explanation of all relevant investment strategies and their associated risks, prospective Investors should review the applicable Offering Documents, which may contain explanations of additional strategies and corresponding risks not discussed below.

**Investment Strategy-Related Risks**

**Fixed Income Securities Risks.** The Clients invest in fixed income securities and are therefore subject to the risks associated with such securities. These risks include, but are not limited to, interest rate risk, default/credit risk, call risk and extension risk.

Credit Spread Risk. Credit spread risk is the risk that credit spreads (*i.e.*, the difference in yield between securities that have differences in credit quality or other factors) may increase. The Clients' investments may be adversely affected if any of the issuers in which they are invested are subject to an actual or perceived deterioration to their credit quality.

Extension Risk. Extension risk exists when the issuer may exercise its right to pay principal on an obligation later than scheduled which would cause cash flows to be returned later than expected. This typically results when interest rates have increased, and the Clients will suffer from the inability to invest in higher yielding securities.

Income/Reinvestment Risk. The Clients are subject to income risk, which is the risk that the Clients' income will decline during periods of falling interest rates or when the Clients experience defaults on debt securities it holds. The Clients' income declines when interest rates fall because, as the Clients' higher-yielding debt securities mature or are prepaid, the Clients must re-invest the proceeds in debt securities that have lower, prevailing interest rates.

Inflation Risk. The market price of debt securities generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less when received by the Clients.

Yield Curve Risk. The risk that there may be an adverse shift in market interest rates of fixed income investments held by the Clients. The risk is associated with either flattening or steepening of the yield curve, which is a result of changing yields among comparable fixed income investments with different maturities.

**Mortgage- and Other Asset-Backed Securities Risk.** The Clients may invest in mortgage- and other asset-backed securities that are issued or guaranteed by private issuers including, but not limited to, certain adjustable-rate mortgage-backed securities ("*ARMBS*"), commercial mortgage-backed securities, home equity loan asset-backed securities, manufactured housing asset-backed securities, and collateralized mortgage obligations ("*CMOs*"), as well as in other mortgage-related asset-backed securities. Mortgage securities may include interests in reperforming loans (mortgage loans that are current but have been delinquent in the past). The Clients also may invest directly in whole mortgage loans.

In addition, the Clients may invest in mortgage securities that are issued or guaranteed by the U.S. government, its agencies or instrumentalities, which include mortgage pass-through securities representing interests in "pools" of mortgage loans issued or guaranteed by various governmental agencies ("*Pass-Through Mortgage Certificates*"), such as the Government National Mortgage Association ("*GNMA*") or by government-related organizations, such as the Federal National Mortgage Association ("*FNMA*") and the Federal Home Loan Mortgage Corporation ("*FHLMC*").

Government agency or instrumentality issues have different levels of credit support. GNMA Pass-Through Mortgage Certificates are backed by the full faith and credit of the U.S. government. U.S. government-sponsored entities ("*GSEs*"), such as FNMA and FHMLC, may be chartered by Acts of Congress, but their securities are neither issued nor guaranteed by the U.S. government. Although the U.S. government has, in the past, provided financial support to FNMA and FHMLC,

no assurance can be given that the U.S. government will continue to do so. Accordingly, securities issued by FNMA and FHMLC may involve a risk of non-payment of principal and interest. For example, FNMA and FHMLC Pass-Through Mortgage Certificates are backed by the credit of the respective instrumentality and are not guaranteed by the U.S. government. The U.S. Department of the Treasury, however, has the authority to support FNMA and FHMLC by purchasing limited amounts of their respective obligations. Investors should remember that guarantees of timely repayment of principal and interest do not apply to the market prices and yields of the securities or to the net asset value or performance of the Clients, which will vary with changes in interest rates and other market conditions. Any downgrade of the credit rating of the securities issued by the U.S. government may result in a downgrade of securities issued by its agencies or instrumentalities, including GSEs.

Mortgage securities issued by GSEs include credit risk transfer securities. Credit risk transfer securities are structured without any government guarantee or underlying collateral, so that (i) interest is paid directly by the GSE and (ii) principal is paid in accordance with the principal payments and default performance of a certain specified pool of residential mortgage loans acquired by the GSE. The Clients may also invest in privately issued credit risk transfer securities.

Mortgage securities differ from conventional debt securities because principal is paid back over the life of the security rather than at maturity. The average maturity of Pass-Through Mortgage Certificates in which the Clients may invest varies with the maturities of the underlying mortgage instruments. The Clients may receive unscheduled prepayments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. To the Clients this means a loss of anticipated interest, and a portion of its principal investment represented by any premium the Clients may have paid. Factors affecting mortgage prepayments include the level of interest rates, the general economic and social conditions, the location of the mortgaged property, and the age of the mortgage. Because prepayment rates of individual mortgage pools vary widely, the average life of a particular pool cannot be predicted accurately. Because of prepayments, mortgage securities may be less effective than some other types of debt securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates. When a Client reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security.

The values of mortgage-backed securities vary with changes in market interest rates generally and the differentials in yields among various kinds of government securities, mortgage-backed securities, and asset-backed securities. In periods of rising interest rates, the rate of prepayment tends to decrease, thereby lengthening the average life of a pool of mortgages supporting a mortgage-backed security. Conversely, in periods of falling interest rates, the rate of prepayment tends to increase, thereby shortening the average life of such a pool. Because prepayments of principal generally occur when interest rates are declining, an investor, such as the Clients, generally has to reinvest the proceeds of such prepayments at lower interest rates than those at which its assets were previously invested. Therefore, mortgage-backed securities have less potential for capital appreciation in periods of falling interest rates than other income-bearing securities of comparable maturity.

Since September 2008, the Federal Housing Finance Agency, an agency of the U.S. government,

has acted as the conservator to operate FNMA and FHMLC. It is unclear how long the conservatorship will last or what effect this conservatorship will have on the securities issued or guaranteed by FNMA or FHMLC for the long-term. Even if FNMA and FHMLC continue to exist in their current forms, their operations could be significantly reduced and the nature of their guarantees could be considerably diminished. Any changes to the nature of the guarantees provided by FNMA and FHMLC could cause losses on Pass-Through Mortgage Certificates. Similarly, any changes to the Federal Reserve Board's policies regarding use of their balance sheets could impact mortgage-backed security valuations.

Under certain circumstances the guarantor of a Pass-Through Mortgage Certificate may be required, or may have the option, to purchase loans from the pool of mortgages underlying the Pass-Through Mortgage Certificate, which may result in prepayments of such Pass-Through Mortgage Certificate. In certain instances, in the recent past, FNMA and FHMLC, significantly increased their purchases of loans that were delinquent by 120 days or longer from their Pass-Through Mortgage Certificate pools. Such repurchases were substantial and resulted in increased prepayments on the affected Pass-Through Mortgage Certificate pools and resulted in lower yields to maturity for Pass-Through Mortgage Certificates purchased at a premium that were backed by such repurchased loans. In the event that FNMA or FHMLC engages in similar repurchases or other unforeseen actions in the future, yields to investors in such Pass-Through Mortgage Certificates may be adversely affected.

Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default. Like mortgage securities, including collateralized debt obligations and collateralized mortgage obligations, asset-backed securities are subject to prepayment and extension risks. Prepayment or call risk is the risk that a borrower's payments may be received earlier or later than expected due to changes in prepayment rates on underlying loans. This could result in the Clients reinvesting these early payments at lower interest rates, thereby reducing the Clients' income.

Mortgage securities also are subject to extension risk. Extension risk is the risk that an unexpected rise in interest rates could reduce the rate of prepayments on mortgage securities and extend their life, causing the price of the mortgage- and asset-backed securities and the Clients' net asset value to fall and make the mortgage securities more sensitive to interest rate changes. An unexpectedly high rate of defaults on the mortgages held by a mortgage pool may adversely affect the value of mortgage-backed securities, which have historically been subject to greater liquidity risk when worldwide economic and liquidity conditions deteriorate. Any such events could result in losses to the Clients. The Clients may invest in mortgage pools that include subprime mortgages, which are loans made to borrowers with weakened credit histories or with lower capacity to make timely payments on their mortgages.

Privately issued mortgage-related securities are not subject to the same underwriting requirements as those with government or government-sponsored entity guarantee and, therefore, mortgage loans underlying privately issued mortgage-related securities may have less favorable collateral, credit risk or other underwriting characteristics, and wider variances in interest rate, term, size, purpose and borrower characteristics. As a result, private mortgage-backed securities may not be

readily marketable.

The risks related to investments in non-investment grade, non-agency mortgage-backed securities are greater for this Fund than for many other funds because the Clients maintains the ability to invest, at any time and from time to time, up to 100% of the Clients' assets in such securities. If the Firm increases the Clients' investments in agency and non-agency mortgage-backed securities at an inopportune time, the Clients could suffer significant losses.

**Adjustable Rate Mortgage-Backed Securities.** ARMBSs have interest rates that reset at periodic intervals. Acquiring ARMBSs permits a Client to participate in increases in prevailing current interest rates through periodic adjustments in the coupons of mortgages underlying the pool on which ARMBSs are based. Such ARMBSs generally have higher current yield and lower price fluctuations than is the case with more traditional fixed income debt securities of comparable rating and maturity. However, because the interest rates on ARMBSs are reset only periodically, changes in market interest rates or in the issuer's creditworthiness may affect their value. In addition, when prepayments of principal are made on the underlying mortgages during periods of rising interest rates, Clients can reinvest the proceeds of such prepayments at rates higher than those at which they were previously invested. Mortgages underlying most ARMBSs, however, have limits on the allowable annual or lifetime increases that can be made in the interest rate that the mortgagor pays. Therefore, if current interest rates rise above such limits over the period of the limitation, Clients do not benefit from further increases in interest rates. Moreover, when interest rates are in excess of coupon rates (i.e., the rates being paid by mortgagors) of the mortgages, ARMBSs behave more like fixed income securities and less like adjustable rate securities and are thus subject to the risks associated with fixed income securities. In addition, during periods of rising interest rates, increases in the coupon rate of adjustable rate mortgages generally lag current market interest rates slightly, thereby creating the potential for capital depreciation on such securities.

**Collateralized Mortgage Obligations.** CMOs are mortgage-backed securities that are collateralized by whole loan mortgages or mortgage pass-through securities. The bonds issued in a CMO transaction are divided into groups, and each group of bonds is referred to as a "tranche." Under the traditional CMO structure, the cash flows generated by the mortgages or mortgage pass-through securities in the collateral pool are used to first pay interest and then pay principal to the CMO bondholders. The bonds issued under a traditional CMO structure are retired sequentially as opposed to the pro-rata return of principal found in traditional passthrough obligations. Subject to the various provisions of individual CMO issues, the cash flow generated by the underlying collateral (to the extent it exceeds the amount required to pay the stated interest) is used to retire the bonds. Under a CMO structure, the repayment of principal among the different tranches is prioritized in accordance with the terms of the particular CMO issuance. The "fastest-pay" tranches of bonds, as specified in the prospectus for the issuance, would initially receive all principal payments. When those tranches of bonds are retired, the next tranche (or tranches) in the sequence, as specified in the prospectus, receives all of the principal payments until that tranche is retired. The sequential retirement of bond groups continues until the last tranche is retired. Accordingly, the CMO structure allows the issuer to use cash flows of long-maturity, monthly pay collateral to formulate securities with short, intermediate, and long final maturities and expected average lives and risk characteristics. In recent years, new types of CMO tranches have evolved. These include floating rate CMOs, planned amortization classes, accrual bonds, and CMO



residuals. These newer structures affect the amount and timing of principal and interest received by each tranche from the underlying collateral. Under certain of these new structures, given classes of CMOs have priority over others with respect to the receipt of prepayments on the mortgages.

Therefore, depending on the type of CMOs in which the Clients invests, the investment may be subject to a greater or lesser risk of prepayment than other types of mortgage-backed securities. CMOs may include real estate mortgage investment conduits (“*REMICs*”). REMICs, which were authorized under the Tax Reform Act of 1986, are private entities formed for the purpose of holding a fixed pool of mortgages secured by an interest in real property. A REMIC is a CMO that qualifies for special tax treatment under the Code and invests in certain mortgages principally secured by interests in real property. Investors may purchase beneficial interests in REMICs, which are known as “regular” interests, or “residual” interests. Guaranteed REMIC pass-through certificates (REMIC Certificates) issued by FNMA or FHLMC represent beneficial ownership interests in a REMIC trust consisting principally of mortgage loans or FNMA, FHLMC, or GNMA-guaranteed mortgage pass-through certificates. For FHLMC REMIC Certificates, FHLMC guarantees the timely payment of interest and also guarantees the payment of principal, as payments are required to be made on the underlying mortgage participation certificates. FNMA REMIC Certificates are issued and guaranteed as to timely distribution of principal and interest by FNMA. The primary risk of CMOs is the uncertainty of the timing of cash flows that results from the rate of prepayments on the underlying mortgages serving as collateral and from the structure of the particular CMO transaction (i.e., the priority of the individual tranches). An increase or decrease in prepayment rates (resulting from a decrease or increase in mortgage interest rates) will affect the yield, the average life, and the price of CMOs. The prices of certain CMOs, depending on their structure and the rate of prepayments, can be volatile. Some CMOs may also not be as liquid as other securities.

**To Be Announced Securities.** A to-be-announced (“TBA”) securities transaction, which is a type of forward-commitment transaction, represents an agreement to buy or sell mortgage-backed securities with agreed-upon characteristics for a fixed unit price, with settlement on a scheduled future date, typically within 30 calendar days of the trade date. With TBA transactions, the particular securities (i.e., specified mortgage pools) to be delivered or received are not identified at the trade date; however, securities delivered to a purchaser must meet specified criteria, including face value, coupon rate, and maturity, and be within industry-accepted “good delivery” standards. The Clients may sell TBA securities to hedge its portfolio positions or to dispose of mortgage-backed securities it owns under delayed-delivery arrangements. Proceeds of TBA securities sold are not received until the contractual settlement date. A risk associated with TBA transactions is that at settlement, either the buyer fails to pay the agreed price for the securities or the seller fails to deliver the agreed securities.

**Interest Rate Risk.** Interest rate changes can be sudden and unpredictable, and are influenced by a number of factors, including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of bonds. Changes in government monetary policy, including changes in tax policy or changes in a central bank’s implementation of specific policy goals, may have a substantial impact on interest rates. There can be no guarantee that any particular government or central bank policy will be continued, discontinued or changed, nor that any such policy will have the desired effect on interest rates. Debt securities generally tend to lose market

value when interest rates rise and increase in value when interest rates fall. A rise in interest rates also has the potential to cause investors to rapidly move out of fixed income securities. A substantial increase in interest rates may also have an adverse impact on the liquidity of a security, especially those with longer maturities or durations. Securities with longer maturities or durations or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to interest rate changes.

**Credit Risk.** Clients could lose money on a debt security if the issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. Clients may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the Firm or the rating agencies than such securities actually do.

Mortgage securities that are not issued by U.S. government agencies may have a greater risk of default because neither the U.S. government nor an agency or instrumentality has guaranteed or provided credit support for them. The credit quality of most asset-backed securities depends primarily on the credit quality of the underlying assets and the amount of credit support (if any) provided to the securities. While securities issued by GNMA are backed by the full faith and credit of the U.S. government, not all securities of the various U.S. government agencies are, including those of FNMA and FHMLC. Also, guarantees of principal and interest payments do not apply to market prices, yields or a Client's net asset value. Although the U.S. government has recently provided financial support to FNMA and FHMLC, the U.S. government is not obligated by law to do so and no assurance can be given that the U.S. government will do so in the future. Any downgrade of the credit rating of the securities issued by the U.S. government may result in a downgrade of securities issued by its agencies or instrumentalities, including government-sponsored entities.

**Risks Related to Rating Agencies.** Ratings assigned by rating agencies to securities acquired by the Clients reflect only the views of those agencies and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. No assurance can be given that ratings assigned will not be withdrawn or revised downward.

**High-Yield Mortgage and other Debt Securities Risk.** Certain mortgage securities in which the Clients may invest may be rated below investment grade by Moody's or S&P or may be unrated and deemed to be of comparable quality by the Firm. These mortgage securities involve greater risk of a loss of some or all of a Client's investment, or delays in the receipt of interest and principal payments, than higher-quality mortgage securities and are generally considered to be predominantly speculative. Borrowers in the underlying mortgages of lower-rated or "high-yield" mortgage securities are generally not as strong financially as borrowers in the underlying mortgages of higher credit quality mortgage securities. Therefore, high-yield mortgage securities are more vulnerable to changes in the relevant economy, such as a recession or a sustained period



of rising interest rates that could affect the ability of the borrowers in the underlying mortgages to make interest and principal payments when due. An unexpectedly high rate of default on the underlying mortgages may limit substantially the mortgage pool's ability to make payments of principal or interest to the Clients, which may reduce the value of such mortgage securities or, in some cases, render them worthless. In addition, a Client is susceptible to the credit quality of the issuer of a mortgage security, which may not be as financially sound as an issuer of a higher-rated mortgage security. If an issuer stops making interest and/or principal payments, or if the borrowers in the underlying mortgages default and the guarantees, if any, for the mortgage securities default or otherwise fail, payments on the securities may never resume. Enforcing rights against the underlying assets or collateral may be difficult, or the underlying assets or collateral may be insufficient if the issuer defaults.

The prices of high-yield mortgage securities generally fluctuate more than higher-quality securities. Prices are especially sensitive to changes in the ratings assigned by rating agencies. High-yield mortgage securities are generally less liquid than higher-quality securities. These securities may not be registered for sale under the federal securities laws and/or may not trade frequently. When they do trade, their prices may be significantly higher or lower than expected. At times, it may be difficult to sell these securities promptly at an acceptable price, which may limit the Clients' ability to sell securities in response to specific economic events or to meet withdrawal requests. As a result, high-yield mortgage securities generally pose greater illiquidity and valuation risks.

The risks related to investments in non-investment grade, non-agency mortgage-backed securities are greater for this Fund than for many other funds because the Clients maintains the ability to invest, at any time and from time to time, a substantially material portion of the Clients' assets in such securities. If the Firm increases the Clients' investments in non-agency mortgage-backed securities at an inopportune time, the Clients could suffer significant losses.

**Prepayment Risk.** Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When the Clients reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security. Securities subject to partial or complete prepayment(s) may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates for fixed-rate assets, and for floating or variable rate securities, rising interest rates generally increase the risk of refinancings or prepayments.

**Income.** A Client's income generally declines during periods of falling interest rates because such Client must reinvest the proceeds it receives from existing investments (upon their maturity, prepayment, amortization, call, or buy-back) at a lower rate of interest or return.

**Focus Risk.** The greater a Client's exposure to (or focus on) any single type of investment – including investment in a given industry, sector, country, region, or type of security, and particularly given the Clients' focus on mortgage-related securities – the greater the impact of adverse events or conditions in such industry, sector, country, region or investment will have on such Client's performance. To the extent a Client has greater exposure to any single type of

investment, including for example, certain types of MBS or other instrument, the Client's potential for loss (or gain) will be greater than if its portfolio were invested more broadly in many types of investments.

**Asset-Backed Securities Risks.** The Firm invests Client capital in various types of ABS, which may be private structures and are structured like MBS. However, instead of mortgage loans or interests in mortgage loans, the underlying assets for ABS may include, but are not limited to, such items as auto loans, equipment leases, purchase agreements or other performance contracts, leases of various types of real and personal property, and services advances as well as receivables from sales agreements or other trade contracts, which represent the obligations of a number of different parties and use credit enhancement techniques such as subordination, guarantees, or preference rights.

The value of an ABS is affected by changes in the market's perception of the assets backing the security and the creditworthiness and efficacy of the servicing agent for the loan pool, the originator of the loans, or the financial institution providing any credit enhancement as well as by the expiration of any credit enhancement.

Each type of ABS also entails unique risks depending on the type of assets involved and the legal structure used. For example, trade receivables are generally unsecured and may be subject to risks like obligor default during difficult business periods, dilution risk, commingling risk, or servicer default. ABS typically experience credit risk. For example, there is an increasing supply of subordinated securities rated lower than AA (down to B or first loss) and senior securities that may be rated lower than AAA as well. Consequently, there is limited credit enhancement supporting ABS. Higher than expected defaults on the underlying assets may result in losses on the ABS.

In addition, there is the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral. Even if an ABS is secured by the securities' underlying loans, upon the occurrence of an event of default, the holders of the ABS may be unable to liquidate the underlying loans for an amount sufficient to pay all amounts due on the ABS. Even if an underlying loan is secured by collateral, the value of such collateral may depreciate more quickly than the amortization of the underlying loan. Therefore, if a borrower defaults on an underlying loan, there is a risk that recoveries on repossessed collateral may not be sufficient to pay the underlying loan in full. In such cases, the related ABS may suffer losses, such risk being mitigated or increased depending upon the ranking in the issuer's capital structure of such ABS and the amount of available credit enhancement. Therefore, the risk of investing in ABS is ultimately dependent upon payment of the underlying consumer loans or other receivables by the debtors, and investors in ABS are less likely to benefit from recoveries on any collateral if the consumer defaults on the loan.

In general, "premium" ABS (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments, and "discount" ABS (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. The adverse effects of prepayments may adversely affect a Client's. Such portfolio may underperform relative to hedges that the Firm may have constructed for these

investments, resulting in a loss to the Client's portfolio. In particular, prepayments (at par) may limit the potential upside of many ABS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Structural and legal risks of ABS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliated entities), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing entity may have been commingled with cash flows on the originator's other assets (or similar reasons), (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator; or (ii) the transfer of such assets to the issuer could be voided as a fraudulent transfer. The time and expense related to a challenge of such determinations also could result in losses and/or delayed cash flows. These risks are also present in residential MBS.

**Real Estate Investment Trusts.** The Clients may invest in real estate investment trusts (each, a "REIT"). An equity REIT owns real estate properties directly and generates income from rental and lease payments. Equity REITs also have the potential to generate capital gains as properties are sold at a profit. A mortgage REIT makes construction, development, and long-term mortgage loans to commercial real estate developers and earns interest income on these loans. A hybrid REIT holds both properties and mortgages. To avoid taxation at the corporate level, REITs must distribute most of their earnings to shareholders. Investments in REITs are subject to many of the same risks as direct investments in real estate. In general, real estate values can be affected by a variety of factors, including, but not limited to, supply and demand for properties, general or local economic conditions, and the strength of specific industries that rent properties. Ultimately, a REIT's performance depends on the types and locations of the properties it owns and on how well the REIT manages its properties. The value of a REIT may also be affected by changes in interest rates. Rising interest rates generally increase the cost of financing for real estate projects, which could cause the value of an equity REIT to decline. During periods of declining interest rates, mortgagors may elect to prepay mortgages held by mortgage REITs, which could lower or diminish the yield on the REIT. REITs are also subject to heavy cash-flow dependency, default by borrowers, and changes in tax and regulatory requirements. In addition, a REIT may fail to meet the requirements for qualification and taxation as a REIT under the Code and/or fail to maintain exemption from the 1940 Act.

**Collateralized Debt Obligations.** The Clients may invest in collateralized debt obligations ("CDOs"), which are generally types of asset-backed securities. Collateralized bond obligations ("CBOs") and CLOs are generally considered two types of CDOs. CBOs represent interests in a special purpose, bankruptcy-remote special purpose entity ("SPE"), typically a trust, collateralized by a pool of fixed income securities, some of which may be below investment grade, including commercial mortgage-backed securities, residential mortgage-backed securities, corporate bonds and emerging market debt securities. CLOs are similar to CBOs except that the underlying pool for a CLO is generally comprised of corporate and/or sovereign loans, which may include, among others, senior secured loans, senior unsecured loans, and subordinate corporate loans made to domestic and foreign borrowers, including loans that may be rated below investment grade or equivalent unrated loans. For the broader category of CDOs, the pool of debt instruments held by

an SPE may include debt instruments of any type, including mortgage-backed or other asset-backed securities issued in securitization transactions. In all types of CDOs, the interests in the SPE are split into two or more portions, called tranches, varying in risk, maturity, payment priority and yield. The riskiest portion is the “equity” tranche, which is the first loss position to observe defaults from the collateral in the trust. Because they are partially protected from defaults, senior tranches of a CDO trust typically have higher ratings and lower yields than the underlying collateral securities held by the trust and can be rated investment grade. The Clients may invest in any tranche of a CDO, including the “equity” tranche.

The risks of an investment in a CDO depend largely on the type of collateral held by the SPE and the tranche of the CDO in which the Clients invests. Investment risk may also be affected by the performance of a CDO’s collateral manager (the entity responsible for selecting and managing the pool of collateral securities held by the SPE), especially during a period of market volatility. CDOs may be deemed to be illiquid securities and subject to a Client’s restriction on investments in illiquid securities. A Client’s investment in CDOs will not receive the same investor protection as an investment in registered securities.

In addition, prices of CDO tranches can decline considerably. In addition to the normal risks associated with debt securities and asset backed securities (e.g., interest rate risk, credit risk and default risk), CDOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or quality or go into default or be downgraded; (iii) the Clients may invest in tranches of a CDO that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer, difficulty in valuing the security or unexpected investment results.

**High-Yield Debt Securities Risk.** High-yield debt securities (including loans) and unrated securities of similar credit quality (high-yield debt instruments or junk bonds) generally involve greater risk of a complete loss of the Clients’ investment, or delays of interest and principal payments, than higher-quality debt securities or loans. Unrated debt securities determined by the Firm to be of comparable quality to rated securities which the Clients may purchase may pay a higher interest rate than such rated debt securities and be subject to a greater risk of illiquidity or price changes. Less public information is typically available about unrated securities or issuers.

**Bank Loans Risk.** There are a number of risks associated with an investment in bank loans including, credit risk, interest rate risk, liquidity risk and prepayment risk. Lack of an active trading market, restrictions on resale, irregular trading activity, wide bid/ask spreads and extended trade settlement periods may impair the Clients’ ability to sell bank loans within its desired time frame or at an acceptable price and its ability to accurately value existing and prospective investments.

**Equity Securities Risk.** Investors should be aware that equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities, and that those fluctuations can be pronounced. Changes in the value of the common stocks in the Clients’ portfolio will result in changes in the value of the Clients’ interests and thus the Clients’ total return to Investors.

**Preferred Stocks Risk.** The Clients may invest in preferred stocks, which, like many debt obligations, are generally fixed-income securities. Investors of preferred stocks normally have the right to receive dividends at a fixed rate when and as declared by the issuer's board of directors, but do not participate in other amounts available for distribution by the issuing corporation. In some countries, dividends on preferred stocks may be variable, rather than fixed. Dividends on the preferred stock may be cumulative, and all cumulative dividends usually must be paid prior to common investors of common stock receiving any dividends. Because preferred stock dividends must be paid before common stock dividends, preferred stocks generally entail less risk than common stocks. Upon liquidation, preferred stocks are entitled to a specified liquidation preference, which is generally the same as the par or stated value, and are senior in right of payment to common stock. Preferred stocks are, however, equity securities in the sense that they do not represent a liability of the issuer and, therefore, do not offer as great a degree of protection of capital or assurance of continued income as investments in corporate debt securities. Preferred stocks are generally subordinated in right of payment to all debt obligations and creditors of the issuer, and convertible preferred stocks may be subordinated to other preferred stock of the same issuer.

**Convertible Securities Risk.** Convertible securities are bonds, debentures, notes, preferred stocks, or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Convertible securities have general characteristics similar to both debt obligations and equity securities. The values of convertible securities in which the Clients may invest may be exposed to the stock market risk of the underlying stock, or may be exposed to the interest rate or credit risk of the issuer. Because both interest rate and market movements can influence its value, a convertible security is usually not as sensitive to interest rate changes as a similar fixed-income security, nor is it as sensitive to changes in share price as its underlying stock. Convertible securities also are subject to credit risks that affect debt securities in general.

**Options Risk.** The purchase of an option involves the payment of a premium by the investor and the corresponding right to purchase the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the purchaser of the option loses its premium. The Clients may purchase customized options and other derivatives in the OTC market that may have features different from traditional exchange-traded options (in which the Clients may also invest), though they also share the same risks. These options and derivative instruments may also subject the Clients to risk of default by the counterparty. Investments in these financial instruments may also be subject to additional risks such as interest rate and other risks. The ability of the Clients to close out a position as purchaser of an exchange-listed option would be dependent upon the existence of a liquid secondary market on an exchange. Among the possible reasons for the absence of a liquid secondary market on an exchange are (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities; (iv) interruption of the normal operations on an exchange; (v) inadequacy of the facilities of an exchange or similar facility to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the



trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms.

**Futures Contracts.** The value of futures contracts depends upon the price of the reference asset underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Clients' positions trade or of its clearinghouses, clearing members or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Clients from promptly liquidating unfavorable positions and subject the Clients to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the Commodity Futures Trading Commission ("CFTC") could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

**Unrated Debt Securities.** Unrated debt securities determined by the Firm to be of comparable quality to rated securities which the Clients may purchase may pay a higher interest rate than such rated debt securities and be subject to a greater risk of illiquidity or price changes. Less public information is typically available about unrated securities or issuers.

**Foreign Securities Risk.** Investing in the securities of foreign issuers involves risks that are not typically associated with investing in U.S. dollar-denominated securities of domestic issuers. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. Investments in foreign issuers may be affected by changes in currency rates, changes in foreign or U.S. laws or restrictions applicable to such investments and in exchange control regulations (*i.e.*, currency blockage). Commissions on transactions in foreign securities may be higher than those for similar transactions on domestic stock markets and foreign custodial costs are higher than domestic custodial costs. In addition, clearance and settlement procedures may be different in foreign countries and, in certain markets, such procedures have on occasion been unable to keep pace with the volume of securities transactions, thus making it difficult to conduct such transactions. Foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to U.S. issuers. There may be less publicly available information about a foreign issuer than about a U.S. issuer. In addition, there is generally less government regulation of foreign markets, companies and securities dealers than in the U.S. Most foreign securities markets may have substantially less trading volume than U.S.

securities markets and securities of many foreign issuers are less liquid and more volatile than securities of comparable U.S. issuers. Furthermore, with respect to certain foreign countries, there is a possibility of nationalization, expropriation or confiscatory taxation, imposition of withholding or other taxes on dividend or interest payments (or, in some cases, capital gains), limitations on the removal of funds or other assets, political or social instability or diplomatic developments which could affect investments in those countries.

**Liquidity Risk.** Liquidity risk exists when particular investments are or become difficult to purchase or sell at the price at which the Clients has valued the security, whether because of current market conditions, the financial condition of the issuer, or the specific type of investment. If the market for a particular security becomes illiquid (for example, due to changes in the issuer's financial condition), the Clients may be unable to sell such security at an advantageous time or price due to the difficulty in selling such securities.

**Issuer, Counterparty, Central Counterparty and Clearing Member Credit Risk.** The issuer or the guarantor of a debt security, or the counterparty, central counterparty or clearing member to a swap, futures contract or other derivatives contract, may, in certain circumstances, be unable or unwilling to make timely principal and/or interest payments, to return posted collateral or margin or to otherwise honor its obligations. Further, the stability, liquidity and market value of repurchase agreements, swap transactions, forwards and other OTC derivative transactions depend in large part on the creditworthiness of the parties to the transactions. The Firm monitors on an ongoing basis the creditworthiness of firms with which it will enter into interest rate swaps, or other OTC derivatives. Nevertheless, in unusual or extreme market conditions, a counterparty's creditworthiness and ability to perform may deteriorate rapidly, and the availability of suitable replacement counterparties may become limited.

The Clients are subject to the risk of insolvency of a counterparty, an exchange, clearinghouse or clearing member. Fund assets could be lost or impounded during lengthy bankruptcy proceedings. Were a substantial portion of the Clients' capital tied up in a bankruptcy, the Firm might suspend or limit trading, perhaps causing the Clients to miss significant profit opportunities. There are increased risks in dealing with unregulated trading counterparties including the risk that assets may not benefit from the protection afforded to "customer funds" deposited with regulated dealers and brokers.

Certain types of swaps currently are, and others eventually are expected to be, required to be centrally cleared to an exchange. Central clearing is designed to reduce counterparty credit risk and increase liquidity compared to OTC swaps because central clearing interposes the central clearinghouse as the counterparty to each participant's swap, but it does not eliminate those risks completely.

With centrally cleared swaps and futures contracts, there is a risk of loss by the Clients of the initial and variation margin deposits in the event of bankruptcy of the clearing member with which the Clients has an open position in a swap or futures contract. Additionally, if the clearing member does not provide accurate reporting, the Clients is also subject to the risk that the clearing member could use the Clients' assets, which are held in an omnibus account with assets belonging to the

clearing member's other customers, to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty.

If there is a default by the counterparty, central counterparty or clearing member to a derivatives transaction, the Firm will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction, but bankruptcy and insolvency laws could affect the Clients' rights as a creditor. Furthermore, exercising such contractual rights may involve delays or costs, which could result in the net asset value of the investment being less than if the Firm had not entered into the transaction.

**OTC Counterparty Credit Risk.** Many of the markets in which the Clients effects its transactions are OTC or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. To the extent the Clients invests in OTC transactions on these markets, the Clients may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections. This exposes the Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Clients to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Clients has concentrated its transactions with a single or small group of counterparties. The Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. The ability of the Clients to transact business with any one or number of counterparties, the lack of any independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients.

**Non-Diversification Risk.** Because a non-diversified portfolio generally invests a greater portion of its assets in the securities of one or more issuers and/or invests overall in a smaller number of issuers than a diversified fund, the Clients may be more sensitive to a single economic, business, political, regulatory or other occurrence or to the financial results of a single issuer than a more diversified fund might be. Similarly, the Clients' credit risk increases as more of the Clients' assets are invested in a smaller number of issuers.

**Opportunities Risk.** It is possible that the Firm will not find a sufficient volume of investments it deems appropriate for the Clients.

**Portfolio Turnover Risk.** High portfolio turnover rates generally increase transaction costs, which are Client expenses. Such portfolio transactions may also result in the realization of taxable capital gains, including short-term capital gains, which are generally taxable at ordinary income tax rates for federal income tax purposes for Investors subject to income tax and who hold their interests in the Clients in a taxable account. Higher transaction costs reduce the Clients' returns.



**Smaller Capitalization Issuers.** The Clients may invest in small and/or less well-established companies. While smaller companies generally have potential for rapid growth, they often involve higher risk because they lack the management experience, financial resources, product diversification and/or competitive strength of larger corporations. In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. As a result, the securities or loans of smaller companies may be subject to wider price fluctuations. In addition, due to thin trading in some of those stocks or bonds, an investment in those stocks or bonds may be considered less liquid than an investment in many large-capitalization stocks or bonds. When making large sales, the Clients may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the trading volume of smaller company securities.

**Cash/Cash Equivalents Risk.** The Clients may hold significant cash or cash equivalents, and to the extent it does hold such investments, rather than securities or other instruments, the Clients risks losing opportunities to participate in market appreciation and may experience potentially lower returns than other funds that remain fully invested.

**U.S. Government Obligations.** The Clients may invest in U.S. government debt obligations, which are fixed income securities issued by the U.S. government and/or its political subdivisions. Neither the U.S. government nor its agencies guarantee the market value of their securities, and interest rate changes, prepayments and other factors may affect the value of government securities. Some of the securities purchased by the Clients are issued by the U.S. government, such as Treasury notes, bills and bonds, and GNMA pass-through certificates, and are backed by the “full faith and credit” of the U.S. government (the U.S. government has the power to tax its citizens to pay these debts) and may be subject to less credit risk.

Securities issued by U.S. government agencies, authorities or instrumentalities, such as the Federal Home Loan Banks, FNMA and FHLMC, are neither issued nor guaranteed by the U.S. government. Although FNMA, FHLMC and the Federal Home Loan Banks are chartered by Acts of Congress, their securities are backed only by the credit of the respective instrumentality. Investors should remember that although certain government securities are guaranteed, market price and yield of the securities or net asset value and performance of the Clients are not guaranteed.

**Leverage.** The Clients may borrow for the purpose of purchasing securities and funding withdrawal requests. The amount of its borrowings, and the amount of borrowings that the Clients may have outstanding at any time may be large in comparison to its capital. Borrowing money to purchase securities may provide the Clients with the opportunity for greater capital appreciation but, at the same time, will increase the Clients’ exposure to capital risk and higher current expenses. Moreover, if the Clients’ capital is not sufficient to pay the principal of, and interest on, the debt when it is due, the Clients could sustain a total loss of its investment. The Clients may also utilize leverage through other leveraging techniques, including derivative instruments.

**Short Sales.** The Clients may make short sales of securities either “against the box” (*i.e.*, where the Clients already own the security sold short) or unhedged (*i.e.*, where the Clients do not already own the security sold short). If the price of the security increases subsequent to an unhedged short

sale, the Clients will have to cover the sale by buying the security at a higher price than that for which they sold the security.

Selling securities short generally involves selling securities which the Clients do not own, and in order to make delivery to its purchaser, the Clients must borrow securities from a third party lender. The Clients subsequently must return the borrowed securities to the lender by delivering to the lender the securities they receive in the transaction or by purchasing securities in the open market. Such short sales may include securities the Firm believes to be overvalued in the expectation of covering the short sale with securities purchased at a price lower than that received in the short sale. There can be no assurances that securities which the Firm believes to be overvalued are in fact overvalued or that overvalued securities will decrease in value. If the price of such securities increases, the Clients may be forced to cover the respective short position at a higher price than the short sale price, resulting in a loss. Short selling activities may also be subject to restrictions imposed by securities laws and the various securities exchanges, which restrictions could affect the investment activities of the Clients.

**Market Disruption Risks.** Geopolitical and other events such as earthquakes, hurricanes, war, terrorism, economic uncertainty, trade disputes, public health crises and other unforeseen natural or human disasters have had, and in the future may have, broad adverse social, political, and economic effects on the global economy, which could negatively impact the value of the Clients' investments. Such events include the recent pandemic spread of a novel coronavirus and the related disease known as COVID-19, which has had a severe and disruptive effect on global markets and economies, the full impact and duration of which has yet to be determined. Market disruptions resulting from the current pandemic could have negative effects on the Clients, including with respect to the liquidity and valuation of the Clients' portfolio, and could have the effect of magnifying other risks faced by the Clients. Such disruptions could interfere with the Clients' ability to execute its investment strategies and impede the Clients' ability to meet its investment objective.

#### Risks Relating to the Operations and Investment Activities of the Clients

**Potential for Loss.** An investment in the Clients entails a high degree of risk. There can be no assurance that the Clients will achieve its investment objective or that the strategies described herein will be successful. Given the factors that are described herein, there exists a possibility that a Member could suffer a total loss of its investment in the Clients.

**Operating History.** The Clients have a limited operating history, and there can be no assurance that the Clients will achieve their investment objective or provide a return to Investors. Past performance of the Clients or any accounts advised by the Firm is not indicative of the future performance of the Clients. There can be no assurance that the Clients will be profitable.

**Cybersecurity.** With the increased use of technologies such as the Internet to conduct business, the Clients may be susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber incidents affecting the Firm and its affiliates and other service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the

Clients' ability to value its securities or other investments, impediments to trading, the inability of Investors to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which the Clients invest, counterparties with which the Clients engage in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers for Investors) and other parties. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While the Clients' service providers have established business continuity plans in the event of, and risk management systems to prevent, such cyber incidents, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, the Clients cannot control the cyber security plans and systems put in place by its service providers or any other third parties whose operations may affect the Clients or its Members. The Clients and its Investors could be negatively impacted as a result.

**Item 9**  
**Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's or prospective Investor's evaluation of the Firm's advisory business or the integrity of the Firm's management.

## **Item 10**

### **Other Financial Industry Activities and Affiliates**

#### **A. Broker-Dealer Registration**

Neither Perini Capital nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

#### **B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor Registration**

Neither Perini Capital nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

#### **C. Material Relationships and Conflicts of Interests with Industry Participants**

As mentioned throughout this Brochure, Perini Capital provides investment advisory services to the Fund and multiple SMA Clients. Perini Capital Partners, LLC, an affiliate of the Perini Capital, acts as the managing member of the Fund.

In addition, the Firm may provide investment advisory services to others, may manage funds or capital for others, may have, make and maintain investments in its own name or through other entities, and may serve as officer, director, trustee, consultant, partner or stockholder of one or more investment funds, partnerships, trusts, securities firms or advisory firms. The additional funds or accounts that the Firm may sponsor or advise may have strategies and investments which are similar to or different from those of the Clients.

The Firm and its employees will devote the time and effort required to develop and operate the Clients business, but they are not required to, and will not, devote their full working time to the operations of the Clients. As a result of the foregoing, the Firm and its employees may have conflicts of interest in allocating their time and activity between the Clients and any other fund or accounts; in allocating investments among the Clients and any other fund or accounts; and in effecting transactions between the Clients and any other fund or accounts, including those in which the Firm may have a greater financial interest. The Firm may give advice or take action with respect to such other accounts that differs from the advice given with respect to the Clients. However, the Firm will endeavor to treat all Clients in a fair and equitable manner under the circumstances.

#### **How Perini Capital Addresses Potential Conflicts of Interest**

To address potential conflicts of interests in its material relationships, Perini Capital has adopted certain policies and procedures, including a Code of Ethics. The Chief Compliance Officer is responsible, on a day-to-day basis, for implementing these policies such that they do not pose a material risk to Perini Capital and its Clients. For a more detailed discussion of the Code of Ethics, please see Item 11, "*Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*," below.

**D. Material Conflicts of Interest Relating to Other Investment Advisers**

Perini Capital does not recommend or select other investment advisers for our Clients.

## Item 11

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

#### A. Code of Ethics

Perini Capital has adopted a Code of Ethics designed to reinforce and enhance the Firm's ethical way of doing business. The Code of Ethics is based on the principle that Perini Capital and its employees have a fiduciary duty to its Clients, and must in this fiduciary capacity, place the interest of the Clients before its own. The Code of Ethics is designed to address and avoid conflicts of interests and is applicable to all employees. The Code of Ethics contains detailed rules concerning, among other issues, conflicts of interests, procedures with respect to personal securities transactions, gifts and entertainment, and outside business activities. Employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Furthermore, the Code of Ethics provides for a range of sanctions, as deemed appropriate, including censure, fine, reversal of transactions and disgorgement of profits, suspension or termination of employment.

A copy of Perini Capital's Code of Ethics is available upon request by contacting the Chief Compliance Officer by email [JSilver@perinicapital.com](mailto:JSilver@perinicapital.com).

#### B. Securities in Which Perini Capital or a Related Person Has a Material Financial Interest

To the extent permitted by applicable law, Perini Capital's compliance policies and procedures and a Client's investment guidelines, Perini Capital may engage in "cross trades" where, as investment manager to a Client account, including the Fund or the SMAs, Perini Capital causes that Client account to purchase a security directly from (or sell a security directly to) another Client account. Perini Capital may execute cross trades for a variety of reasons, including tax purposes and liquidity purposes. Cross trades present a conflict of interest because the Perini Capital represents the interests of both the selling account and the buying account in the same transaction and may have a financial incentive to favor one Client account over the other due to different fee arrangements or otherwise. This conflict may be greater in cases where Perini Capital or its affiliates, or their respective members and/or employees own a portion of any such Client account engaging in such a transaction. If Perini Capital decides to engage in a cross trade, it will determine that the trade is in the best interests of both of the Clients involved and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Clients. To the extent that any cross trade may be viewed as a principal transaction due to the ownership interest in the Client by Perini Capital or its personnel, Perini Capital will comply with all applicable requirements of the Advisers Act.

Perini Capital advises the Clients alongside certain personal capital of key employees of the Firm pursuant to a strategy similar to that of the Clients. Although there is often likely to be significant overlap between the investment portfolio of such personal accounts and the investment portfolio of the Clients, employees may generally liquidate their investments on substantially less notice than that required by the withdrawal provisions applicable to investors in the Clients. Further,

employees may have access to more information with respect to the portfolio holdings, and are not subject to any gate, lock-up or other similar restriction with respect to the liquidation of their portfolios.

In addition, Perini Capital employees, directly or indirectly, through the managing member of the Fund, have an investment in the Fund. As a result, Perini Capital and its employees have an interest in the investments that may also be recommended to Clients.

**C. Personal Trading**

Perini Capital's Code of Ethics places restrictions on personal trades by its employees and any of their respective spouses, domestic partners or children living in the same household of such employees (each a "*Covered Persons*"). Covered Persons must pre-clear certain Reportable Securities (as defined in the Code of Ethics, and which include single name equity and debt securities, options or other derivatives on securities, indices and currencies, and interests in private investment funds) in their personal accounts. Covered Persons must also disclose all personal accounts and holdings initially upon commencement of employment, and annually thereafter. In addition, Covered Persons are required to provide quarterly reports regarding transactions in Reportable Securities and newly opened personal accounts thereafter.

**D. Conflicts of Interest Created by Contemporaneous Trading**

The Firm seeks to allocate investment opportunities among Clients in a manner it considers fair and equitable, and in a manner that is in the best interest of the Clients and consistent with the investment objectives of each of Client. Although the Firm will attempt to allocate investment opportunities in a manner which is in the best interests of all of the entities involved, there can be no assurance that an investment opportunity which comes to the attention of the Firm, its officers, directors, and employees will not be allocated to entities other than Clients, with the Clients being unable to participate in such investment opportunity or participating only on a limited basis. In addition, there may be circumstances under which the Firm, its officers, directors, and employees will consider participation by other entities in investment opportunities in which the Firm, its officers, directors, and employees do not intend to invest, or intends to invest only on a limited basis, on behalf of the Clients. The Firm, its officers, directors, and employees evaluate for the Clients a variety of factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for the Clients at a particular time, including the nature of the investment opportunity taken in the context of the other investment guidelines or regulatory limitations on the Clients and the transaction costs involved. Because these considerations may differ for Clients in the context of any particular investment opportunity, investment activities of the Clients differ considerably from time to time.



## **Item 12**

### **Brokerage Practices**

As noted previously, Perini Capital has full discretionary authority to manage investments of its Clients, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers, dealers and counterparties, including prime brokers, to be used for the Clients' securities transactions, and commissions or markups and markdowns paid. Perini Capital's authority is limited by its own internal policies and procedures and each Client's investment guidelines.

#### **A. Selection of Broker-Dealers and Reasonableness of Compensation**

Perini Capital arranges for the execution of securities transactions for the Clients through brokers or dealers that the Perini Capital reasonably believes will provide best execution. Perini Capital uses its best efforts to seek the best overall terms available and selects brokers or dealers that execute or direct the execution of all such transactions in a manner permitted by law and in a manner that it believes to be in the best interest of the Fund. In selecting a broker or dealer and assessing the best overall terms available for any transaction for the Clients, Perini Capital may consider all factors it deems relevant including, but not limited to, the breadth of the market in the relevant security, the price of the security, and the financial condition and execution capability of the broker or dealer executing the transaction in the security. Perini Capital generally will seek competitive commission rates but will not necessarily attempt to obtain the lowest possible commission for transactions for the Clients.

##### **1. Research and Other Soft Dollar Arrangements**

Perini Capital does not currently receive brokerage and research services (*i.e.*, within the meaning of Section 28(e) of the Securities Exchange Act of 1934) other than execution from broker-dealers or third parties as a result of Client securities transactions. However, in the future it may elect to do so.

##### **2. Brokerage for Client Referrals**

Subject to best execution, Perini Capital may also allocate purchase and sale transactions to broker-dealers on the basis of capital introduction and consulting services provided by such broker-dealers. Even though Perini Capital does not commit to allocate a particular amount of brokerage to a broker-dealers in return for capital introduction services and consulting services, the use of such services could create a conflict of interest when deciding which prime brokers to use.

##### **3. Directed Brokerage**

Perini Capital does not intend to recommend, request, or require that a Client direct Perini Capital to execute transactions through a specified broker-dealer.

#### **B. Aggregating Orders for Client Accounts**

Consistent with its duty to seek the best possible execution for Clients, to the extent practicable, Perini Capital will typically seek to aggregate (or “*batch*”) purchase or sale orders that are placed for more than one Client when it believes such action is in the best of such Clients. In such event, allocation of such securities purchased and sold will be made in accordance with the Firm’s investment allocation and trade allocation policies. When an aggregated order is filled in its entirety, each participating Client will participate at the average share price for the aggregated order, and transaction costs shall be shared pro rata among each Client participating in the aggregated order. If Perini Capital places multiple bunched orders in the same security or other investment, and such orders are executed at multiple prices during the day, the Clients will generally participate at the average price paid. Partially filled orders will generally be allocated pro rata in proportion to the original allocation but may be modified on a basis that Perini Capital deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations.

Although Perini Capital believes that aggregating orders usually facilitates best execution and reduces transactional costs, it is possible that the average price received for an aggregated order may be worse than the price which a Client could have received had it executed a smaller quantity of shares on its own. There may also be corresponding potential disadvantages when more than one Client simultaneously seeks to dispose of commonly held securities or other investment positions.

## **Item 13**

### **Review of Accounts**

#### **A. Periodic Review of Client Accounts**

The President and Chief Executive Officer has ultimate responsibility for all investment decisions made and will review Client portfolios on an ongoing basis. Such reviews that include, but are not limited to, an assessment of periodic profit and loss reports with respect to its Clients' investment positions, the amount of leverage employed in connection with managing its Clients' accounts, and adherence to each Client's trading parameters and investment strategies. The President and Chief Executive Officer will evaluate the Firm Clients' investments based on performance, company fundamentals, news and press releases, analyst reports, general market conditions and other considerations. A review of a Client account may be triggered by any unusual activity or special circumstances.

#### **B. Additional Review of Client Accounts**

The Chief Compliance Officer will assist the President and Chief Executive Officer with monitoring for risks arising from Client- or investor-imposed investment restrictions, leverage, counterparty risk, and risks related to operations and systems.

#### **C. Contents and Frequency of Account Reports to Clients**

Perini Capital will provide Fund Investors with annual audited financial statements for the Funds (within 120 days after the end of each fiscal year) and Schedules K-1 with respect to each Fund Investor's interest in the Fund. In addition, Perini Capital may provide Fund Investors with performance and other updates on a periodic basis.

The separate account holders of the SMAs will receive quarterly statements concerning the account holder's account from the custodian and/or Perini Capital.

A prospective Fund Investor or SMA account holder is responsible for asking questions or requesting information it believes is necessary to make its own investment decisions and must decide for itself whether the limited information typically provided by Perini Capital to such investors is adequate for its investment evaluation.

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

Perini Capital does not receive economic benefits from non-Clients for providing investment advice and other advisory services. Neither Perini Capital nor any of its related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

## **Item 15**

### **Custody**

Pursuant to Rule 206(4)-2 under the Advisers Act, Perini Capital is deemed to have custody of the assets held by the Funds. To comply with this Rule, the assets of each Fund are held by a qualified custodian, with the exception of certain privately offered securities. In addition, Perini Capital intends to meet its custody reporting requirements through the audit method by having the financial statements of each Fund audited annually by an independent, PCAOB-registered accounting firm. Perini Capital subsequently distributes the results of the audited financials to the Investors in each Fund within 120 days after the end of the fiscal year.

Perini Capital and its affiliates shall at no time have custody or physical control, or the ability to obtain custody or physical control of the assets held in the SMAs. Account holders of the SMAs will receive at least quarterly statements from the qualified custodian that holds and maintains such account holders' cash and investment assets. Perini Capital urges SMA account holders to carefully review these statements and compare them to the account statements that Perini Capital provides. Perini Capital statements may vary from the statements of the qualified custodian based on accounting procedures valuation methodologies of certain securities.

## **Item 16**

### **Investment Discretion**

Perini Capital has discretionary investment authority with respect to the Clients, including the authority to determine which securities and investments to buy or sell and the amount of securities and investments to buy or sell, the brokers through which Perini Capital effects trades and the commission rates at which Perini Capital effects trades. Despite this broad authority, Perini Capital is committed to adhering to the investment strategy and program set forth in the applicable Offering Documents and/or the IMA.

## **Item 17**

### **Voting Client Securities**

Perini Capital has the authority to cast all proxy votes for the securities held in the Fund. As a result, Perini Capital has adopted a proxy voting policy pursuant to and in compliance with the Advisers Act Rule 206(4)-6. Perini Capital's general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "*Proxies*") in a prudent and diligent manner that will serve the applicable Clients' best interests and is consistent with their investment objectives.

Perini Capital generally expects to vote Proxies in accordance with the recommendations of company management. However, there are many complexities to Proxies, and Perini Capital will vote against a proposal or recommendation of management if it determines that such a vote is in the best interests of each Client.

Where Perini Capital has voting authority, it is Perini Capital's general policy to process every Proxy it receives. Certain types of matters that are the subject of a proxy vote may require a more detailed analysis than the analysis required for some routine or uncontested matters. Perini Capital will abstain from voting or affirmatively decide not to vote if it determines, after considering a variety of factors, that abstaining or not voting is in the best interests of the Clients.

Conflicts of interest may arise between the interests of the Clients and Perini Capital or its affiliates. If Perini Capital determines that it may have, or may be perceived to have, a conflict of interest when voting Proxies, Perini Capital will vote in accordance with our Proxy voting policies and procedures.

Investors and prospective Investors may obtain a copy of Perini Capital's Proxy voting policies and Proxy voting record upon request by contacting Perini Capital's Chief Compliance Officer by email at [JSilver@perinicapital.com](mailto:JSilver@perinicapital.com).

**Item 18**  
**Financial Information**

Perini Capital 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.



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

Perini Capital is not a state-registered adviser.