

# Caption Management, LLC

## Form ADV Part 2A

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*This brochure provides information about the qualifications and business practices of Caption Management, LLC. If you have any questions about the contents of this brochure, please contact us at (347) 797-5101 and/or [info@captionpartners.com](mailto:info@captionpartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.*

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

*Being registered does not imply a certain level of skill or training.*

**Item 2****Material Changes**

Caption Management, LLC filed its most recent annual update to this brochure on March 26, 2020. This brochure has been updated to include updates regarding, among other things, the accounts managed by Caption Management LLC and certain related updates. While Caption Management, LLC does not consider these changes to be material, clients are encouraged to read this document in its entirety.

### **Item 3**

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## **Item 4                      Advisory Business**

Caption Management, LLC (the “Investment Manager”) is a Delaware limited liability company that was formed in February 2012. The Investment Manager is primarily owned by Jason Strasser and William Cooper.

The Investment Manager provides discretionary investment advice to the following private funds (together, the “Caption Funds”): (i) Caption Partners, LP (“Caption I”) and (ii) Caption Partners II, LP (“Caption II”). The Investment Manager also provides discretionary investment advice to private funds through separately managed account arrangements, referred to herein as the separately managed accounts. References herein to the “Accounts” means the Caption Funds, the separately managed accounts and any other fund or account that may be managed by the Investment Manager in the future.

The Investment Manager does not permit investors in the Accounts to impose limitations on the investment activities described in the offering documents or the governing documents of the applicable Account. Under certain circumstances, the Investment Manager will contract with a separately managed account client to adhere to limited risk and/or operating guidelines imposed by that client. The Investment Manager negotiates such arrangements on a case-by-case basis. (See Item 16 “*Investment Discretion.*”)

The general partner of the Caption Funds is Caption GP, LLC (the “General Partner”), a Delaware limited liability company.

The Investment Manager does not participate in wrap fee programs.

As of December 31, 2020, the Investment Manager’s total regulatory assets under management were \$1,218,816,424, all of which are managed on a discretionary basis.

## **Item 5                      Fees and Compensation**

The Investment Manager’s fees and compensation are described in the advisory contracts it enters into with its clients.

### The Caption Funds

Each Caption Fund will pay to the Investment Manager a quarterly management fee (the “Management Fee”) calculated as follows: (i) for Caption I, the Management Fee will be calculated at an annual rate of 2% of each investor’s capital account and (ii) for Caption II, the Management Fee will be calculated at an annual rate of 2.35% of each investor’s capital account. The Management Fees will be paid quarterly in advance based on the value of each investor’s capital account as of the first business day of each calendar quarter, adjusted for contributions and withdrawals made during the quarter. If applicable, any Management Fees are refundable on a pro rated basis if the relevant advisory contract is cancelled prior to the end of a payment period. The Management Fees will be deducted directly from the investor’s assets.

The General Partner has reduced the Management Fee for investors in each Caption Fund and may, in its sole discretion, waive or modify the Management Fee for future investors in each Caption Fund.

### Separately Managed Accounts

The Investment Manager's compensation schedule with respect to each separately managed account is contained in the investment advisory agreement relating to such account. Management fees are generally paid to the Investment Manager monthly or quarterly in advance, and a pro rated portion will be refunded if the investment advisory agreement is cancelled prior to the end of the relevant payment period. Such fees are billed by the Investment Manager and are not deducted from the separately managed accounts.

### Expenses

The Investment Manager will render its services to the Accounts at its own expense and will be responsible for its overhead expenses including: office rent; furniture and fixtures; stationery; secretarial/internal administrative services; salaries and bonuses; entertainment expenses; employee insurance and payroll taxes.

All other expenses will be paid by the Caption Funds and will include, in addition to the Management Fee: each Caption Fund's legal, compliance, administrator, audit and accounting expenses (including third party accounting services); organizational expenses; investment expenses such as commissions (*see Item 12 "Brokerage Practices" below*), research fees and expenses (including research related travel); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; bank service fees; Caption Fund-related insurance costs (including D&O and E&O insurance for the Investment Manager and the General Partner and outside directorship liability, if applicable); and any other expenses related to the purchase, sale or transmittal of Caption Fund assets. Each separately managed account is responsible for its *pro rata* share of the same expenses, to the extent applicable.

The Investment Manager may also allocate a portion of certain Accounts' capital to money market funds or exchange-traded funds ("ETFs"). In addition to the fees and expenses discussed above, the Accounts will indirectly incur similar fees and expenses if the Investment Manager invests their capital in such funds, as these funds in turn pay similar fees and expenses to their investment managers and other service providers.

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

### The Caption Funds

At the end of each fiscal year, the General Partner will receive an annual incentive allocation generally equal to a percentage (the "Incentive Allocation Percentage") of the net profits attributable to the capital account of each investor in the relevant Caption Fund, if any, subject to a loss carryforward provision (the "Incentive Allocation"). The Incentive Allocation Percentage will be equal to: (i) 20% for Caption I, and (ii) 18.5% for Caption II. When calculating the Incentive Allocation, net profits will be reduced by the Management Fee, and all items of income, loss and expense incurred by the Caption Funds will be taken into account.

In the event that an investor withdraws capital (in whole or in part) other than at the end of a fiscal year, the deduction of the Incentive Allocation will be made with respect to such investor as though it were being made at the end of a fiscal year.

The General Partner has reduced the Incentive Allocation for investors in each Caption Fund and may, in its sole discretion, waive or modify the Incentive Allocation for future investors in each Caption Fund.

### Separately Managed Accounts

The Investment Manager's compensation schedule with respect to each separately managed account is contained in the investment advisory agreement relating to such account. Generally, the Investment Manager receives performance-based fees from each separately managed account on an annual basis, subject to a loss carryforward provision.

### Side-By-Side Management

Performance-based compensation arrangements create an incentive for the Investment Manager to recommend investments that may be riskier or more speculative than those that would be recommended under a different compensation arrangement. Performance-based compensation arrangements also create an incentive for the Investment Manager to favor Accounts with higher compensation rates over other Accounts when allocating investments. The Investment Manager has adopted procedures designed and implemented to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among them.

The terms of the performance-based compensation differ among the Accounts. This may result in a conflict of interest when the Investment Manager allocates opportunities among the Accounts because it will have an incentive to favor Account(s) that have a higher performance-based compensation. To avoid such a conflict of interest, the Investment Manager generally follows documented procedures in allocating opportunities among the Accounts, which do not take into account the performance-based compensation to which the Accounts are subject (see below).

The Investment Manager allocates investment opportunities in accordance with documented procedures. In allocating investment activities among the clients, it is the Investment Manager's policy that all clients should be treated fairly and, to the extent possible, all clients pursuing the same strategies should receive equivalent treatment.

The Investment Manager will seek to allocate investment opportunities among the Accounts on a fair and equitable basis under the circumstances existing at such time based on a number of factors, including, but not limited to, a particular Account's investment and leverage guidelines and restrictions, available cash, liquidity requirements or constraints, tax, legal or regulatory reasons, to avoid odd lots, or in cases in which such an allocation would result in a *de minimis* allocation. The Investment Manager's general policy is to allocate investment opportunities among the Accounts on a *pari passu* basis, with appropriate adjustments for applicable leverage guidelines. However, allocations among the Accounts may be made on a basis other than *pari passu* for a number of reasons, including the factors set forth above.

Because the Management Fees and Incentive Allocation are, in certain cases, based directly on the net asset values of the applicable Caption Funds, the Investment Manager has a conflict of interest in valuing their assets. The Investment Manager will follow its documented valuation policies, use auditors and consult with the third-party administrator to each Caption Fund in order to mitigate this risk.

## **Item 7                      Types of Clients**

The Investment Manager primarily provides discretionary investment advice to clients that are private funds (either through fund vehicles or separately managed accounts). Investors in such private funds are generally high net worth individuals, fund of funds, institutional investors, family offices, endowments and foundations that qualify as "accredited investors" (as defined in Rule 501 under the Securities Act of 1933, as amended) and, for the separately managed accounts, "qualified purchasers" (as defined under

the Investment Company Act of 1940, as amended). The minimum investment for investors in the Caption Funds is generally \$500,000. All minimum investments discussed above are subject to reduction in the sole discretion of the General Partner.

The Investment Manager will determine the minimum investment for a separately managed account on a case-by-case basis.

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

### The Caption Funds

The investment objective of the Caption Funds is capital appreciation through the purchase and sale of securities. The Caption Funds invest primarily in U.S. common stocks and options on U.S. common stocks. The Caption Funds' target average holding period of these investments is 1-2 months, though some will be much shorter and some may be much longer. The Investment Manager will overweight Caption II's position exposure by a multiple of 2.5 times the position exposure of Caption I.

The Investment Manager will concentrate on opportunities where fundamental research reveals inefficiencies in equity and options markets. The Investment Manager believes that a deep understanding of company fundamentals allows it to better anticipate the future distribution of a stock price and profit through equity and options trades. The Investment Manager pursues trading strategies that seek to profit from changes in stock prices and/or changes in equity volatility.

The Investment Manager may make investments outside these criteria, if the Investment Manager deems it appropriate and advantageous, and the Caption Funds may retain certain cash or cash equivalents for liquidity/redemption purposes. Although the Caption Funds expect to invest primarily in U.S. common stocks and options on U.S. common stocks, the Investment Manager may also invest in other securities for purposes of capital appreciation or hedging. These other securities may include, but are not limited to, ETFs, options on ETFs, swaps, and over-the-counter options.

The Investment Manager seeks to invest in securities in which potential returns are believed to be greater than the risks assumed. The Investment Manager will particularly focus on trades in which the potential payouts are asymmetrically larger than the potential losses.

### Separately Managed Accounts

The separately managed accounts pursue substantially the same investment objective and strategies as the Caption Funds, subject to certain guidelines that have been negotiated with their advisers. Accordingly, these accounts are subject to substantially the same risks as the Caption Funds. Such clients are advised to refer to their advisory agreements with the Investment Manager for details concerning their particular investments.

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

### Certain Risk Factors

An investment in each Account is speculative and involves a high degree of risk. There can be no assurance that the investment objectives of any Account will be achieved or that an investment in an Account will generate positive returns. The Caption Funds have substantial limitations on investors' ability to withdraw

or transfer their interests, and no secondary market for the Caption Funds' interests exists or is expected to develop. In managing the Accounts, the Investment Manager utilizes investment techniques, including short selling, the use of leverage and trading in derivatives, that involve significant risks. All of these risks, and other important risks, are described in detail in the Accounts' respective confidential offering memoranda or advisory agreements. Prospective investors are strongly urged to review the applicable confidential offering memorandum or advisory agreement carefully and consult with their own financial, legal and tax advisers before investing in a Caption Fund or appointing the Investment Manager to manage a client account.

## **Item 9                      Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of this advisory business or the integrity of the Investment Manager's management.

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

The management of multiple client accounts may result in conflicts of interests when the Investment Manager allocates time and investment opportunities among such accounts. In addition, the compensation earned by the Investment Manager from each of the Accounts will differ from one another. The Investment Manager will generally follow documented procedures in allocating investment opportunities among the Accounts (*see Item 6 "Performance Based Fees and Side-by-Side Management" above*).

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

### Overview

The Investment Manager has adopted a Code of Ethics, which is designed to ensure that it conducts its business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, the Investment Manager recognizes that it owes a fiduciary duty to the Accounts, and that all of its employees must conduct their business on the Investment Manager's behalf in a manner that enables it to fulfill this fiduciary duty.

Among other things, the Code of Ethics: (i) governs all personal investment transactions by the Investment Manager's employees, (ii) contains the Investment Manager's policies with respect to gifts and entertainment, (iii) contains the Investment Manager's policies with respect to political contributions, and (iv) contains the Investment Manager's policies regarding certain outside activities of its employees. The Investment Manager will provide a copy of its Code of Ethics to any client or prospective client upon request.

### Personal Securities Trading Policy

Under the Investment Manager's Code of Ethics, the Investment Manager's employees are generally prohibited from engaging in personal trading without obtaining the prior written consent of our Chief Compliance Officer. Additionally, employees are restricted from transacting in securities of issuers on the Investment Manager's Restricted Security List. Prohibitions relating to personal trading also generally apply to any spouse or minor child, or an immediate family member of an employee living in the same household as such employee.



Employees are required to provide the Investment Manager's Chief Compliance Officer with periodic reporting relating to their trading activity and personal accounts. Employee personal trading activity is subject to review by the Chief Compliance Officer.

#### Participation or Interest in Client Transactions

The Investment Manager's principals, employees and/or other related persons have a greater portion of their personal assets invested in certain of the Accounts. As a result, the Investment Manager has a conflict of interest in allocating investment opportunities among the Accounts. To mitigate this conflict, the Investment Manager will generally follow documented procedures in allocating investment opportunities among the Accounts. (See Item 6 "Performance Based Fees and Side-by-Side Management" above.)

The Investment Manager will not engage in any transaction that would constitute a principal transaction unless it has determined that the transaction is in the relevant clients' best interests and has obtained consent in accordance with its written procedures.

## **Item 12 Brokerage Practices**

#### Selection of Brokers

The Investment Manager is authorized to determine the broker or dealer to be used for each securities transaction for its clients. In selecting brokers or dealers to execute transactions, the Investment Manager need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost.

In placing securities transactions for the Accounts, the Investment Manager seeks to obtain best execution, taking into account some or all of the following factors, among others: price; the ability to effect the transactions; the brokers' responsiveness and ability to act quickly; the broker's facilities; reliability; and the provision of services (e.g., certain custodial services, research services, news and quotation services, certain publications, analytical and trading software, and trading products and services).

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. The Investment Manager will not commit to provide any level of brokerage business to any broker, and actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above.

The Investment Manager has established a Best Execution Committee, which generally meets on a quarterly basis to evaluate, among other things, the execution that the Investment Manager is receiving from broker-dealers. In conducting its analysis, the committee may consider the factors listed above, among others, and will review gifts and entertainment received and any known conflicts of interest (e.g., directing commissions to a broker at which a family member is employed). In addition, the Investment Manager maintains an approved broker list.

During the Investment Manager's last fiscal year, it did not acquire any products or services with client brokerage commissions (or markups or markdowns).

### Soft Dollars

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a “safe harbor” that permits an investment manager to use commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. The Investment Manager does not currently have any formal soft dollar arrangements, but it occasionally receives bundled products or services from broker-dealers. To the Investment Manager’s knowledge, such products and services are generally made available to all institutional clients doing business with these broker-dealers. If the Investment Manager determines to engage in soft dollar transactions in the future, it intends to comply with the above-referenced safe harbor.

### Brokerage for Client Referrals

Subject to applicable law, the Investment Manager occasionally directs some client brokerage business to brokers that refer prospective investors to the Investment Manager. Because such referrals, if any, are likely to benefit the Investment Manager but may only provide an insignificant (if any) benefit to its clients, it may have a conflict of interest with its clients when allocating brokerage business to such brokers. To mitigate this potential conflict, the Investment Manager will not allocate brokerage business to a referring broker unless it determines that such allocation is consistent with its best execution duties.

### Trade Error Policy

Subject to applicable law, the Investment Manager will reimburse the applicable Account for net losses that occur as a result of trade errors in accordance with the exculpation provisions in the governing documents or advisory agreement for such Account.

The Investment Manager may correct misallocations of trades among Accounts by re-allocating the applicable trade using the intended allocation methodology prior to the trade’s settlement date.

### Aggregation of Orders

Aggregation, or “bunching,” describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for the Investment Manager generally arise when more than one Account is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors.

The Investment Manager will generally aggregate trades for the Accounts, subject to best execution and as long as such aggregation is in the best interests of all participating client accounts. Each client that participates in an aggregated order will participate at the average price for all of the Investment Manager’s transactions in that security on a given business day, with transaction costs shared *pro rata* based on each client’s participation in the transaction. When an aggregated order is only partially filled, the Investment Manager will allocate the investment opportunity as described in *Item 6* above.

## **Item 13                      Review of Accounts**

### Portfolio Review

Client portfolios are reviewed daily, and their performance is analyzed, by the Investment Manager's investment professionals, including, but not limited to, the portfolio managers and analysts for the relevant client account(s). Client investments are evaluated based on performance, company fundamentals, news and press releases, analyst reports, general market conditions and such other considerations as the Investment Manager deems appropriate.

### Reports to Investors

Investors in the Caption Funds receive monthly statements summarizing account balances and performance, which are prepared and delivered by the administrator of each Caption Fund. When available, update letters are furnished to investors. On an annual basis, the Investment Manager provides investors with a copy of the relevant Caption Fund's annual audited financial statements and, if applicable, a statement of taxable income (Schedule K-1).

Investors may be provided with certain information about the Investment Manager and the Caption Funds in response to questions and requests. Although the Investment Manager may not distribute such information to other investors or prospective investors, it will generally be available onsite for all relevant investors upon request. Each investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions and must decide for itself whether the limited information provided by the Investment Manager is sufficient for its needs.

The Investment Manager provides the adviser of each separately managed account with periodic unaudited reports at such times as are agreed upon by the adviser of such account and the Investment Manager. Each such adviser receives account statements from each separately managed account's custodian on such periodic basis as is agreed to between such adviser and custodian. In addition, the adviser to each separately managed account has full, real-time transparency as to all transactions and holdings in such account, and will be better able to assess the future prospects of a portfolio that is substantially similar to the portfolios of the Caption Funds.

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

The Investment Manager does not accept any economic benefit, directly or indirectly from any third party for advice rendered to clients.

The Investment Manager does not directly or indirectly compensate any person who is not advisory personnel for client referrals (other than as disclosed under *Item 12* for brokerage referrals).

## **Item 15                      Custody**

For purposes of Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended (the "Custody Rule"), the Investment Manager is deemed to have custody over the Caption Funds' assets. In accordance with the Custody Rule, a qualified custodian is not required to deliver quarterly account statements to the Caption Funds or their respective investors as long as: (i) the Caption Funds are audited by an independent public accountant that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board, (ii) the Caption Funds' audited financial statements are prepared in accordance with U.S. generally accepted accounting principles, and (iii) the Investment

Manager delivers such annual audited financial statements to investors within 120 days after the end of each Caption Fund's fiscal year.

The Investment Manager does not have custody over the separately managed accounts. As noted above in Item 13, the adviser of each such account will periodically receive account statements from the custodian of such account. The adviser of each such account should carefully review these statements.

## **Item 16 Investment Discretion**

The Investment Manager has discretionary authority to manage securities accounts on behalf of its clients. The investors in the Caption Funds generally may not place any limits on the Investment Manager's authority beyond the limitations set forth in the offering and governing documents of such funds. On a case-by-case basis, the adviser of each separately managed account may negotiate certain risk and/or operating guidelines to which the Investment Manager will adhere when exercising its discretionary authority over such account.

## **Item 17 Voting Client Securities**

The Investment Manager generally has voting discretion over the investments held by the Accounts. Clients are generally not able to direct their votes in a particular situation. The Investment Manager has adopted proxy voting policies and procedures, which are summarized below.

In the absence of specific voting guidelines from a client or conflicts of interest, the Investment Manager will seek to make its proxy voting decisions in the best interests of each client, which may result in different voting results for proxies for the same issuer. In addition, the Investment Manager may determine to abstain from voting a proxy if the Investment Manager believes that such action is in the best interests of a particular client or determines that the issue being voted upon is not material. In this regard, the Investment Manager generally does not expect that it will vote proxies for the Accounts because it does not believe that proxies will typically have an impact on the value of such accounts. Nonetheless, the Investment Manager will review each proxy and will vote a proxy for the Accounts if it determines that voting would be in the best interest of any such account. In determining whether a specific proposal is in the best interests of a particular client, the Investment Manager may take into account, among other things: (i) management of the issuer's views and recommendations on such proposal; (ii) whether the proposal may have the effect of entrenching existing management and/or making management less responsive to shareholders' concerns (*e.g.*, instituting or removing a poison pill, classified board of directors and/or other anti-takeover measure); and (iii) whether it believes that the proposal will fairly compensate management for its and/or the issuer's performance.

If our Chief Compliance Officer believes that a material conflict exists with respect to a proxy, the Investment Manager will rely exclusively in making its voting decision on the recommendation of an independent third party who is experienced in advising investment managers regarding proxy voting decisions.

Upon the request by a client, the Investment Manager will disclose to such client how it voted proxies for securities owned by such client. The Investment Manager will also provide a copy of its proxy voting policies and procedures to clients upon request.

## **Item 18                      Financial Information**

The Investment Manager is not required to include its balance sheet for the Investment Manager's most recent fiscal year with this brochure.

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

The Investment Manager is not a state-registered adviser.