

# SEA OTTER ADVISORS LLC

## BROCHURE

March 30, 2023

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This brochure (“**Brochure**”) provides information about the qualifications and business practices of Sea Otter Advisors LLC (the “**Firm**,” “**we**” or “**Sea Otter**”), an investment adviser registered with the United States Securities and Exchange Commission (“**SEC**”). If you have any questions about the contents of this brochure, please contact the Firm’s Chief Compliance Officer, Patrick Kane, at (646) 762-9972.

The information included in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

**Item 2.           Material Changes**

No material updates at this time.

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## **Item 4. Advisory Business**

### *Firm Ownership*

Sea Otter is an investment adviser with its principal place of business in New York, New York and began providing advisory services to its client in 2022. Peter D. Smith and Galvatron Corporation each own 25% or more of Sea Otter's LLC interests. Peter Smith, Nicholas Fahey and Jeff Hwang are the Directors of Galvatron Corporation and have control over its voting securities.

### *Advisory Services*

Sea Otter serves as the investment adviser for, and provides discretionary investment advisory services to, Sea Otter Trading LLC (the "**Fund**"). The Fund is a Delaware limited liability company and will rely on an exemption from registration under the Investment Company Act of 1940, as amended. As further described in Item 8, Sea Otter currently will utilize the following types of investment strategies for the Fund: a Closed-End Fund ("**CEF**") strategy, a merger arbitrage strategy, an event-driven strategy, a Special Purpose Acquisition Companies ("**SPACs**") strategy and a Statistical Arbitrage Strategy.

Sea Otter does not tailor its advisory services to the individual needs of investors in the Fund. The Firm's investment advice and authority for the Fund will be tailored to the investment objectives of the Fund in accordance with its limited liability company agreement (the "**LLC Agreement**"). Fund investors generally cannot impose restrictions on investing in certain securities or types of securities. Investors in the Fund participate in the overall investment program for the Fund pursuant to the terms of the LLC Agreement.

The Firm also may offer investment advisory services in one or more strategies further described in Item 8 through separately managed accounts to potential institutional clients ("**SMA Clients**"). Should the Firm be retained to manage a SMA Client account, it would manage such account in accordance with any investment management agreement with such client, which may include investment objectives or guidelines specifically discussed and reviewed with such client.

### *Assets Under Management*

The Firm manages approximately \$68,820,144 in assets under management (based on a valuation of the assets managed by the Fund as of December 31, 2022) once registered as an investment adviser with the SEC. These assets are managed on a discretionary basis.

## **Item 5. Fees and Compensation**

### *Advisory Fees*

#### The Fund

The specific manner in which Sea Otter charges fees to the Fund is established and described in greater detail in the LLC Agreement. Fund investors should refer to the LLC Agreement for a complete understanding of how Sea Otter is compensated for its advisory services. The information

contained herein is a summary only and is qualified in its entirety by such document.

The Firm will be compensated for its investment management services to the Fund with a performance-based fee (the “**Performance Fee**”) in which 30% of the Fund’s net capital appreciation is allocated as an incentive allocation, which will accrue monthly and be payable at the end of each performance period. The Performance Fee and further details of the performance period is described and defined further in the LLC Agreement.

### SMA Clients

Should the Firm be retained to manage a future SMA Client account, the advisory fees to be charged to such SMA Client, including the amount, payment terms and method of payment, will be subject to negotiation and will be established in accordance with any investment management agreement implemented with such SMA Client.

### *Other Expenses*

The expenses paid by the Fund are set forth in the LLC Agreement. Fund investors and prospective Fund investors should therefore review the applicable advisory agreement or LLC Agreement carefully because such documents, and not the summary in this brochure, describe more specifically the expenses such investor will bear.

Should the Firm be retained to manage a future SMA Client account, such accounts may also be subject to fees charged by such SMA Client’s custodian; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions (if any); other portfolio expenses; and, costs, expenses and fees (including investment advisory and other fees charged by other investment advisers with, or funds in, which the SMA Client’s account invests) associated with products or services that may be necessary or incidental to such investments or accounts.

Client assets may be invested in money market mutual funds, exchange-traded funds (“**ETFs**”), CEFs or other registered investment companies. In these cases, unless otherwise provided, the client will bear its pro rata share of the relevant investment management and other fees imposed by the specific fund but ultimately borne by fund investors (and are separate from the Performance Fee disclosed above with respect to the Fund or any advisory fee negotiated with a future SMA Client).

Please also see Item 12 for additional information relating to Sea Otter’s brokerage practices.

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

As noted in Item 5 above, the Firm currently has a Performance Fee arrangement with the Fund, which is further described in its LLC Agreement. Performance-based compensation represents an asset manager’s compensation for managing an account which is based upon a percentage of the net profits of the account being managed. Sea Otter’s entitlement to performance-based compensation in managing the Fund may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation.

Until such time as Sea Otter manages a future SMA Client account or new/additional investment

funds in addition to the Fund, it will pursue all appropriate investment opportunities that meet the investment criteria of the Fund, in accordance with the Fund's LLC Agreement.

To the extent that the Firm has advisory clients other than the Fund (including any future SMA Client accounts or any other additional investment funds accounts), Sea Otter will adhere to its compliance policies and procedures to further its efforts to treat all accounts fairly and equitably over time, regardless of their corresponding fee-structure. These policies and procedures include (but are not limited to) trade and investment allocation/aggregation policies to address potential conflicts of interest associated with the management of multiple client accounts and to seek to ensure that the Firm's client advisory accounts utilizing similar investment strategies are treated fairly and equitably over time. These policies and procedures are monitored by the Firm's Chief Compliance Officer ("CCO"). Please see Items 11 and 12 for additional information regarding these policies and procedures.

#### **Item 7.           Types of Clients**

Sea Otter provides portfolio management services to its sole private fund client, the Fund. As noted in Item 4, the Firm may offer investment advisory services to SMA Clients that are institutional clients.

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

##### *Methods of Analysis and Investment Strategies*

The Fund has a flexible investment mandate across asset classes and capital structures and may invest both long and short across a variety of public, private, and over-the-counter instruments. These include, but are not limited to, corporate and convertible bonds, preferred securities, loans, credit derivatives, equity derivatives, equities (including new issues and SPACs), ETFs, asset-backed securities, swaps, futures, indices, interest rate products, municipals, real estate assets, and currencies, among others.

As part of this flexible investment mandate, Sea Otter currently utilizes the following investment strategies for the Fund. One or more of the following investment strategies may also be offered to potential SMA Client accounts managed by the Firm.

##### **Closed-end Funds (CEF)**

The CEF strategy involves investing in and trading CEFs in an attempt to seek profit from perceived investment opportunities including fund level or corporate events such as self-tender offers, mergers, conversions to open-end funds or ETFs, liquidations, shareholder activism, increases or decreases in CEFs dividends/distributions, seasonal and tax-related trading patterns and other similar opportunities. The CEF strategy may include taking a long or short position in one CEF and a long or short position in another CEF, ETF or a basket of securities. Sea Otter's proprietary models will seek to track CEF real-time net asset values, discounts, premiums and CEF trends. Based on the Firm's experience in trading CEFs, Sea Otter will attempt to capitalize on perceived pricing inefficiencies.

##### **Merger Arbitrage**

Merger arbitrage involves investing in announced merger and acquisition (“M&A”) transactions whose target company’s stock is publicly-traded. Sea Otter researches announced M&A transactions to determine whether value exists in the “spread,” defined as the difference between the market value of a transaction and the announced terms of the transaction. Such a spread exists because of the possibility that the announced transaction may not be completed. The Firm will seek to determine whether the spread overstates or understates the risk of an uncompleted transaction, and evaluate the attractiveness of such spread for investment purposes. Sea Otter’s independent research will play a role in determining the investment strategy to be utilized.

M&A transactions can be announced with different structures including cash, stock, or cash/stock mergers, cash tender offers, stock exchange offers and cash/stock exchange offers, among others. Sea Otter combines bottom-up research with its proprietary models and aims to predict post-merger pricing and calculate real-time, option-adjusted rates of returns. Sea Otter bases its investment decisions by evaluating the inputs from the Firm’s proprietary models, as well as other considerations that include, but not limited to, reading and analyzing merger documents such as the merger agreement and merger proxy, analyzing regulatory issues, including U.S. and global antitrust issues, and speaking with management of issuers.

### **Event-Driven**

The event-driven strategy involves buying and selling stocks and options of companies that undergo special corporate transactions such as spin-offs, split-offs, Dutch tender offers, liquidations, minority squeeze-out transactions, bank & thrift demutualization’s, among others. Examples of the strategy includes holding company discount trades, deep value opportunities and equity share class trades. Investment ideas in the event-driven strategy are generated by closely following corporate events of companies. Because the Firm monitors and analyzes public and private merger, acquisition, divestiture and related corporate transactions, Sea Otter believes that the event-driven strategy is a natural extension of its merger arbitrage strategy.

### **SPACs**

The SPAC strategy incorporates several investment strategies involving SPACs. A SPAC is blank check company that has not yet merged with an operating company or even chosen a merger target. SPACs are formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses. SPACs often have pre-determined time frames to merge (typically two years) or the SPAC will liquidate. A SPAC generally offers units, each comprised of one share of common stock and a warrant (or portion of a warrant) to purchase common stock (a warrant is a security that allows its holder to purchase a specified amount of common stock at a specified price for a specified time). Sea Otter may purchase units or shares of SPACs that completed an IPO within the last two years on a secondary market or during a SPAC’s IPO in an effort to seek potential returns and to potentially benefit from a SPAC units’/shares’ embedded call optionality. Sea Otter may also seek to sell warrants that it receives in connection with the purchase of a SPAC’s units in an effort to seek additional returns for the Fund. Additionally, Sea Otter may also purchase SPAC warrants and sell SPAC common stock as part of a volatility arbitrage trade in which Sea Otter attempts to profit from the perceived difference between the forecasted future price-volatility of the SPAC stock, and the implied volatility of the warrants associated with that SPAC.

### **Commodities**

Sea Otter may utilize a commodities strategy as part of the Fund's investment mandate, provided that it will operate this strategy pursuant to the commodity pool operator registration exemption in Rule 4.13(a)(3) under the U.S. Commodity Exchange Act (the "**Rule 4.13(a)(3) Exemption**"). In order to rely on the Rule 4.13(a)(3) Exemption, Sea Otter may only engage in a limited amount of commodity interest transactions on behalf of the Fund, which includes transactions involving (among others) equities futures, options on futures, and swaps.

### **Statistical Arbitrage**

This business focus leverages Sea Otter's experienced traders by building intuitive equity microstructure features traded algorithmically on short horizons, but that require trader oversight for discretionary use on longer horizons and larger positions and leads to innovations for both algorithmic and discretionary trading. The initial strategies are for individual equities but will quickly extend to ETF's and building equity and index option algorithmic and discretionary trading strategies.

### *Risk of Loss*

The above methods, strategies and investments involve risk of loss, and any advisory client must be prepared to bear the loss of their entire contribution/investment. Past performance is not indicative of future results. Therefore, it should never be assumed that future performance of any specific investment or investment strategy will be profitable.

Other material risks relating to the foregoing investment strategies include the following:

- *Market Risk.* All the strategies have market risk, which is the risk that the market value of a security will fluctuate, sometimes rapidly and unpredictably. These fluctuations may cause a security to be worth less than it was at the time of purchase. Market risk may affect an individual security, a particular sector or the entire market.
- *Liquidity in Positions and Markets* may increase the volatility of the client portfolio as the result of investment in positions in less liquid or non-exchange traded securities, including equities and fixed income securities. These positions entail particular risks including increased transaction costs and potential difficulty in exiting the position.
- *Concentration of Positions* exposes the client to the risk of the portfolio being concentrated in a relatively small number of positions. This concentration may lead to more volatility than might be the case in a more diversified portfolio.

The Firm will invest in various securities and financial instruments in connection with the investment strategies utilized for advisory clients and provided below is a description of the different types of securities and certain corresponding risks to which a client may be exposed. Depending on the investment strategies employed, different risks will be more applicable. Please note that the below risks do not purport to be a complete explanation of all risks involved. Fund investors also should also refer to any provided Fund offering documents for a more detailed description of the information herein.

- *Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and “growth” stocks can react differently from “value” stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.
- *Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security’s or instrument’s value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.
- *Short Selling.* Short selling involves selling securities that are not owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows a portfolio to profit from declines in market prices to the extent that such declines exceed the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes a portfolio to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.
- *Options.* Advisory client accounts may engage in the trading of options. Such trading involves risks substantially similar to those involved in trading margined securities in that options are speculative and highly leveraged. Specific market movements of the securities underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the security underlying the option which the writer must purchase or deliver upon exercise of the option.
- *Corporate Reorganization Arbitrage and Event-Driven Risk.* The Firm’s evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, may prove incorrect and a client’s return on its investment in such event drive strategy may be negative. Even if the Firm’s judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause a client invested in such strategy to lose money. The Firm’s event-driven strategies are not specifically designed to benefit from general appreciation in the equity markets or general improvement in the economic conditions in the

global economy. Accordingly, a client invested in such strategies may underperform the broad equity markets under certain market conditions, such as during periods when there has been rapid appreciation in the equity markets.

- *Associated Risks of Investments in SPACs.* Sea Otter's SPAC strategy invests in equity securities of SPACs, which raise assets to seek potential business combination opportunities. Unless and until a business combination is completed, a SPAC generally invests its assets in U.S. government securities, U.S. agency securities, money market securities, and cash. Because SPACs have no operating history or ongoing business other than seeking a business combination, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable business combination. There is no guarantee that the SPACs in which the Fund invests will complete a business combination or that any business combination that is completed will be profitable or will be achievable as intended for U.S. federal income tax purposes. If a SPAC does not complete a business combination, the Fund's return on an investment in the common stock of the SPAC is limited to the difference between the purchase price and the SPAC's pro rata trust account value. The market perception of a SPAC's ability to complete a business combination could materially impact the market value of the SPAC's securities. Public stockholders of SPACs may not be afforded a meaningful opportunity to vote on a proposed initial business combination because certain stockholders, including stockholders affiliated with the management of the SPAC, may have sufficient voting power, and a financial incentive, to approve such a transaction without support from public stockholders. As a result, a SPAC may complete a business combination even though a majority of its public stockholders do not support such a combination. Alternatively, an initial business combination that may be attractive to a SPAC's sponsors may fail to get the approval of shareholders. Some SPACs may pursue a business combination only within certain industries or regions, which may increase the volatility of their prices. While the terms of warrants issued by SPACs will vary, to the extent warrants are exercisable prior to a business combination, the holders of a SPAC's common stock may be subject to dilution which could reduce the holder's proportional ownership in the SPAC. In recent market conditions, SPACs have been subject to significant price volatility.
- *Warrant Risk:* Warrants are options to purchase common stock at a specific price (usually at a premium above the market value of the optioned common stock at issuance) valid for a specific period of time. Warrants may have a life ranging from less than one year to twenty years, or they may be perpetual. However, most warrants have expiration dates after which they are worthless. In addition, a warrant is worthless if the market price of the common stock does not exceed the warrant's exercise price during the life of the warrant. Warrants have no voting rights, pay no dividends, and have no rights with respect to the assets of the corporation issuing them. The percentage increase or decrease in the market price of the warrant may tend to be greater than the percentage increase or decrease in the market price of the optioned common stock.
- *Derivatives.* Derivatives are financial instruments that have a value which depends on, or is derived from, a reference asset, such as one or more underlying securities, pools of securities, options, futures, indexes or currencies. Derivatives may result in investment exposures that are greater than their cost would suggest; in other words, a small investment in a derivative may have a large impact on a strategy's performance. The successful use of derivatives

generally depends on the manager's ability to predict market movements. A strategy may use derivatives in various ways. It may use derivatives as a substitute for taking a position in the reference asset or to gain exposure to certain asset classes; under such circumstances, the derivatives may have economic characteristics similar to those of the reference asset, and a strategy's investment in the derivatives may be applied toward meeting a requirement to invest a certain percentage of its net assets in instruments with such characteristics. A strategy may use derivatives to hedge (or reduce) its exposure to a portfolio asset or risk. A strategy may use derivatives for leverage or to manage cash. Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, interest rate risk, credit risk and general market risks. A strategy's use of derivatives may entail risks greater than, or possibly different from, such risks and other principal risks to which a strategy is exposed, as described below.

- *Investment Companies.* Investments in open-end and closed-end investment companies, including mutual funds, CEFs and ETFs, involve substantially the same risks as investing directly in the instruments held by these entities. However, the investment may involve duplication of certain fees and expenses. By investing in an investment company or ETF, the strategy becomes a shareholder of that fund. As a result, investors in a strategy that invests in ETFs or an open-end or closed-end investment company are indirectly subject to the fees and expenses of the individual ETFs or funds. These fees and expenses are in addition to the fees and expenses that investors in the strategy directly bear in connection with the strategy's own operations. If the investment company or ETF fails to achieve its investment objective, the strategy's investment in the fund may adversely affect its performance. In addition, because ETFs and many CEFs are listed on national stock exchanges and are traded like stocks listed on an exchange, (1) the strategy may acquire ETF or CEF shares at a discount or premium to their NAV, and (2) the strategy may incur greater expenses since ETFs are subject to brokerage and other trading costs. Since the value of ETF shares depends on the demand in the market, the Firm may not be able to liquidate the holdings at the most optimal time, adversely affecting performance.
- *Model and Quantitative Risks.* As discussed previously, Sea Otter uses proprietary models to assist portfolio managers in making investment decisions. If these models have errors, or are flawed or incomplete and such issues are not identified, it may have an adverse effect client investment performance.
- *Preferred Securities.* Investments in preferred securities involve credit risk, which is the risk that a preferred security will decline in price or fail to make dividend payments when due because the issuer of the security experiences a decline in its financial status. In addition certain preferred securities carry provisions that allow an issuer under certain circumstances to skip distributions (in the case of "non-cumulative" preferred securities) or defer distributions (in the case of "cumulative" preferred securities). If an account owns a preferred security that is deferring its distributions, the account may be required to report income for tax purposes while it is not receiving income from that security. In certain circumstances, an issuer may redeem its preferred securities prior to a specified date in the event of certain tax or legal changes or at the issuer's call, and the account may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases where dividends are in arrears for a specified number of periods. Preferred securities are subordinated to bonds and other fixed income instruments in a company's

capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those fixed income instruments.

#### *Certain Risks Related to Cybersecurity*

The information and technology systems of the Firm and of key service providers to Sea Otter and the Fund may be subject to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons or security breaches, usage errors by employees, power outages or catastrophic events such as fires or hurricanes. In the unlikely event that these systems are compromised, become inoperable for extended periods of time or cease to function properly there could be significant interruptions in the operations of Sea Otter or its client accounts or a compromise of the security, confidentiality or privacy of sensitive data, including personal information.

The Firm has in place risk management systems and business continuity plans that are designed to address risks associated with these cybersecurity attacks, although there are inherent limitations in any cybersecurity risk management system or business continuity plan, including the possibility that certain risks have not been identified. Accordingly, there is no guarantee that such efforts will succeed especially since we do not directly control the cybersecurity systems of issuers or third-party service providers.

#### *Coronavirus and Public Health Emergencies.*

As of the date of this Brochure, there is an outbreak of a novel and highly contagious form of coronavirus (“**COVID-19**”), which the World Health Organization has declared to constitute a “Public Health Emergency of International Concern.” The outbreak of COVID19 has resulted in numerous deaths, adversely impacted global commercial activity and contributed to market volatility. The global impact of the outbreak is rapidly evolving, and many countries, states, provinces, districts, departments, and municipalities have reacted by instituting quarantines, curfews, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues, including certain infrastructure structures and facilities. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism and entertainment, among other industries. Multiple variants of COVID-19 spread during 2021, with new strains of the virus continuing to be identified. It is unclear whether the mitigation or containment measures taken by various governments (including at the federal, state, and local level) or private enterprises will be continued or re-implemented, or if different measures will be implemented, and what impact such measures will have on the national or global economy.

Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, Ebola or other existing or new epidemic diseases, or the threat thereof, could have a significant adverse impact on a client and its investments and could adversely affect the Fund’s ability to fulfill its investment objectives. The extent of the impact of any public health emergency on the operational and financial performance of a client will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the

extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency may materially and adversely impact the value and performance of a client's investments as well as the ability of a client and source, manage and divest investments and achieve its investment objectives, all of which could result in significant losses to such client. In addition, the operations of the Fund, a client's investments, and the Firm may be significantly impacted, or even halted, either temporarily or on a long-term basis, as a result of government quarantine and curfew measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity's personnel.

#### **Item 9. Disciplinary Information**

As of the date of this Brochure, neither Sea Otter nor any of its supervised persons have been involved in legal or disciplinary events (i.e., criminal or civil action in a domestic, foreign or military court, administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency or self-regulatory organization) that the Firm believes are material to evaluating its advisory business or the integrity of its management.

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

The Firm is a common control affiliate of Sea Otter Securities Group LLC ("**Sea Otter Securities**"), a broker-dealer registered with the SEC under the Securities Exchange Act of 1934 and a member of the American Stock Exchange. Certain officers and employees of the Firm are registered representatives of Sea Otter Securities. While Sea Otter Securities and the Firm also share office space, personnel, back office, compliance and other service provider resources, Sea Otter utilizes third party broker-dealers with respect to Fund transactions and does not place client brokerage transactions with Sea Otter Securities. It is expected that Sea Otter Securities' operations will be wound down following the Firm's registration with the SEC. *See* Item 12 for additional information regarding Sea Otter's brokerage practices.

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

##### *Code of Ethics and Other Related Compliance Policies and Procedures*

The Firm has adopted a Code of Ethics ("**Code**"), which is designed to comply with applicable requirements under the Investment Advisers Act of 1940, as amended, and its rules thereunder (the "**Advisers Act**"). The purpose of the Code is to identify the ethical and legal framework in which the Firm and its personnel are required to operate and to highlight some of the guiding principles and mechanisms for upholding the Firm's standard of business conduct. In addition, the Code imposes restrictions on the personal trading activity of applicable Sea Otter personnel and certain members of their immediate family, as well as reporting requirements. These personal trading restrictions are intended to ensure that applicable personnel do not misuse client information for their own benefit. Among other things, the Code requires covered employees and certain members of their households to "pre-clear" certain personal securities transactions (including, but not limited to, initial public offerings and private placements) prior to execution, with some limited exceptions. All covered personnel must provide the Firm periodically with information regarding their personal securities holdings and trading activity with respect to their personal brokerage accounts. These restrictions

and requirements of the Code apply to all accounts over which such employees have investment discretion, or in which they have a direct or indirect beneficial ownership interest.

Employee trading is monitored for adherence to the Code by the Firm's compliance personnel in order to help ensure that covered employees comply with its provisions and to seek to ensure that the Code reasonably prevents conflicts of interest between Sea Otter and its clients. Clients or prospective clients may obtain a copy of the Code by contacting the Firm's CCO, Patrick Kane, at (646) 762-9972.

In addition to the Code, Sea Otter also has adopted related compliance policies and procedures covering (among other things) insider trading, gifts and entertainment, political contributions, outside business activities and trade and investment allocation/aggregation to address similar potential conflicts of interest and to comply with applicable requirements under the Advisers Act. Please also see Item 8 and Item 12 for additional information related to certain of these policies and procedures.

#### *Participation or Interest in Client Transactions*

Sea Otter does not currently intend to enter into principal transactions, nor conduct cross trades (or "agency" cross trades), with respect to the Fund. To the extent that Sea Otter engages in any principal transactions with the Fund (i.e., transactions where Sea Otter, acting as principal for its own account or that of an affiliate of Sea Otter, buys from or sells any security to a client's account), the Firm will comply with the requirements of Section 206(3) of the Advisers Act, and provide written notification and obtain client consent either prior to the principal transaction or prior to its settlement and in accordance with the LLC Agreement.

#### *Other Conflicts of Interest*

Investors should note that there could be occasions when Sea Otter and its affiliates encounter potential conflicts of interest in connection with the Fund. If any matter arises that the Firm determines in its good faith constitutes an actual conflict of interest, Sea Otter will take such actions as necessary or appropriate, within the context of the Fund's LLC Agreement, to address the conflict.

### **Item 12. Brokerage Practices**

#### *Brokerage Execution Policies*

As a fiduciary, Sea Otter has a duty to seek best execution with respect to client accounts. In seeking best execution, the determinative factor evaluated by Sea Otter is not necessarily the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the natural order flow and the availability of liquidity for facilitation of a position combination or single stock as well as the full range of a broker-dealer's services, including but not limited to, broker-dealer execution quality, reputation, transaction cost, and overall broker-dealer capabilities.

Although the Firm will seek competitive rates, it may not necessarily obtain the lowest possible commission for client account transactions. The commissions and/or transaction fees charged by a broker-dealer may be higher or lower than those charged by other broker-dealers.

Neither the Firm nor any related person is expected to receive client referrals from any broker-dealer

or third party that provides brokerage services to the Firm's clients.

At this time the Firm is not a party to, and does not anticipate entering into, any formal "soft dollar" arrangements with respect to client account transactions. In the event that the Firm utilizes "soft dollar" arrangements and commission dollars in the future, it will do so in a manner that is consistent with the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934, as amended.

#### *Trade Aggregation & Allocation*

Sea Otter will seek to place orders for its advisory clients in a manner that it believes is fair and equitable to clients over time and will allocate securities purchased or sold for its clients pursuant to its trading allocation and aggregation policies. Although not obligated and should the Firm manage additional advisory accounts other than the Fund, Sea Otter will generally strive to aggregate orders for the purchase or sale of the same security for any multiple client accounts (to the extent the Firm has any) when deemed appropriate, in the best interests of client accounts and consistent with applicable regulatory requirements as well as the Firm's trade aggregation and allocation policies. When an aggregated order is filled entirely, each participating client generally will be expected to receive the average share price for that order on the same business day, and share transaction costs pro rata based on each client's participation. If an aggregated order is partially filled, the securities generally are expected to be allocated on a pro rata basis to each participating account based on the initial amount requested, subject to exceptions such as de minimis orders. Each account generally will be expected to participate at the average share prices for the aggregated order on the same business day.

#### **Item 13. Review of Accounts**

The investment strategies' portfolio manager and the Firm's operations team will review the Fund's investments regularly, and are expected to be conducted often on a daily basis. Fund holdings will be monitored in light of trading activity, significant corporate developments and other activities that may dictate a change in portfolio positions. Similar account reviews are expected to be conducted with any future SMA Client accounts managed by the Firm. The CCO also periodically will review client accounts in connection with the Firm's compliance program.

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

The Firm does not expect to receive cash or other benefits from a non-client in connection with giving advice to clients, except as otherwise disclosed herein. In addition, Sea Otter does not currently compensate any third party for client referrals.

#### **Item 15. Custody**

Although assets of the Fund will be held by a third-party custodian, the Firm may be deemed to have custody over the assets of certain of its clients according to the custody rule set forth in Rule 206(4)-2 under the Advisers Act (the "**Custody Rule**"). With respect to the management of the Fund, Sea Otter intends to comply with the Custody Rule by providing audited financial statements of each Fund to investors in such Fund client within 120 days of the end of the fiscal year to satisfy the reporting requirement. Investors in the Fund should carefully review such financial statements.

Should the Firm begin managing any SMA Client accounts, such SMA Client account assets are expected to be held at a third party custodian selected by such client. Such SMA Clients would be expected to receive and should carefully review the periodic statements from their chosen broker-dealer, bank, or other qualified custodian that would hold and maintain such client's investment assets.

#### **Item 16. Investment Discretion**

Sea Otter has discretionary authority based on its investment management agreement with the Fund to buy and sell securities or other investments on behalf of the Fund and to determine the amount of such investments to be bought and sold. Investment advice will be provided directly to the Fund and not to investors in the Fund individually. The terms upon which Sea Otter serves as investment adviser to the Fund are set out in the Fund's LLC Agreement and its investment advisory agreement.

Prior to managing a SMA Client's assets, the Firm will enter into an investment management agreement with such client that sets forth the scope of the Firm's discretion with respect to such account. Such agreement will set forth the Firm's discretionary authority to determine the securities to be purchased and sold for the account of a client (subject to any restrictions set forth in the applicable advisory agreement and any written investment guidelines) and the amount of securities to be purchased or sold for the account of such client.

#### **Item 17. Voting Client Securities**

By virtue of the Fund's investment management agreement with the Firm, Sea Otter has the sole authority to vote Fund securities on any matter requiring a vote of the members or shareholders, or to give consent on any matter requiring the consent of members or shareholders. Should the Firm manage a SMA Client account, such client's investment management agreement may grant Sea Otter the authority to vote proxies on such client's behalf.

If Sea Otter has authority to vote a client's securities on its behalf, the Firm shall follow the requirements set forth in its proxy voting policy. Sea Otter's proxy voting policy seeks to ensure that it votes proxies in the best interest of its advisory clients, including where there are material conflicts of interest in voting proxies. In the event that there is a conflict of interest in voting proxies, Sea Otter's proxy voting policy provides that the Firm shall follow certain processes in order to address such conflict, which may include notifying the client of the conflict and seeking the client's voting preference. Unless otherwise noted, investors in the Fund generally do not direct how Sea Otter votes proxies on behalf of the Fund.

The Firm will provide a copy of its proxy voting policy to any existing or prospective client by contacting its CCO, Patrick Kane, at (646) 762-9972. A client of the Firm can also obtain information from the Firm, free of charge, about how Sea Otter voted any previous public proxies, if any.

#### **Item 18. Financial Information**

This Item is not applicable.