

## Item 1 – Cover Page

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March 30, 2023

This Brochure provides information about the qualifications and business practices of Spring Mountain Capital, LP (“**SMC**”). If you have any questions about the contents of this Brochure, please contact Korrine N. Kohm, SMC’s Chief Compliance Officer, at [compliance@smcinvest.com](mailto:compliance@smcinvest.com). The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

SMC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information to help you determine whether to hire or retain such investment adviser.

Additional information about SMC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for SMC is 119126.

## **Item 2 – Material Changes**

This Item of the Brochure will discuss only specific material changes that have been made to the Brochure since the last annual update. This annual updating amendment had the following changes: We have removed three funds from this disclosure, as they were terminated in 2022, and launched one new fund.

We will provide you with a new Brochure as necessary based on material changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Korrine N. Kohm, SMC's Chief Compliance Officer, at [compliance@smcinvest.com](mailto:compliance@smcinvest.com). Additional information about SMC is also available via the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4 – Advisory Business

SMC is principally owned by John “Launny” Steffens, Founder and Senior Managing Director, and Gregory P. Ho, President. SMC has been providing advisory services since 2001. As of December 31, 2022, SMC managed \$1,340,276,417 on a discretionary basis and \$34,929,269 on a non-discretionary basis, for a total of \$1,375,205,686 in regulatory assets under management.

SMC provides continuous investment management services to pooled investment vehicles (hereinafter, “**Private Funds**”) and separate accounts (“**Managed Accounts**,” and collectively with the Private Funds, the “**clients**”). For all Private Funds, affiliates of SMC act as the general partner. In the case of Private Funds that are domiciled in the United States (the “**Domestic Funds**”), such funds rely on registration exemptions available under the Investment Company Act of 1940, as amended. SMC also serves as the investment manager for one Private Fund organized under the laws of a jurisdiction other than the United States (the “**Offshore Fund**”). Interests in the Offshore Fund are offered on a private placement basis to persons who are not “U.S. Persons,” as defined under Regulation S of the Securities Act of 1933, and to U.S. tax-exempt entities (or entities substantially comprised of U.S. tax-exempt entities), and subject to certain other conditions, which are described in the offering documents for such fund.

SMC also provides municipal fixed income management services through SMC Fixed Income Management, LP (“**SMC FIM**”). The advisory services offered by SMC are detailed below.

SMC is organized into five investment groups: Total Return, Private Capital, Growth Equity, Municipal Bonds and Opportunity Zones. This combination provides the firm with knowledge in each investment vertical, which SMC believes improves investment decisions. SMC seeks to take advantage of investment opportunities “in the gaps” where larger investors typically do not focus. SMC has designed its investment solutions to meet clients’ current needs and reflect the flexibility, adaptability and insight that are essential when investing in today’s complex markets.

### 1. Opportunistic Investing in Traditional and Alternative Asset Classes

SMC employs an investment strategy of opportunistic exposure spanning the alternative investment spectrum that includes both direct investments in securities and other assets as well as investments in other hedge funds, private equity funds, private credit funds and managed accounts managed by unaffiliated third parties. SMC seeks to capitalize on themes that have secular tailwinds driving value or opportunities where value can be realized from dislocations, structural inefficiencies, strategic relationships with issuers or sponsors, and/or situations where information asymmetry exists.

The Private Funds that SMC manages utilizing aspects of this strategy are:

- SMC Total Return Fund, LP (“**Total Return Fund**”);
- SMC Private Capital Fund, LP (“**Private Capital Fund**”);
- SMC Private Capital Fund II, LP (“**Private Capital Fund II**”);
- Spring Mountain Blue Fund, LP (“**Blue Fund**”); and
- SMC Holdings II, LP (“**Holdings II Fund**”).

Refer to Item 8 for more information about the investment strategy of each of these Private Funds. Investors and prospective investors in these Private Funds should refer to the offering memorandum of the applicable Private Fund for complete information.

## 2. Growth Equity Investing

In addition to the multi-strategy Private Funds described above, SMC also manages Private Funds that follow a more traditional growth equity model:

- SMC Private Equity Holdings, LP (“**PE Holdings**”);
- SMC Growth Capital Partners II, LP (“**Growth Capital Partners II**”); and
- SMC Growth Capital Partners III, LP (“**Growth Capital Partners III**”).

Refer to Item 8 for more information about the investment strategy of each of these Private Funds. Investors and prospective investors in these Private Funds should refer to the offering memorandum of the applicable Private Fund for complete information.

Additional information on any sub-advisers utilized by the above Private Funds is contained in the Form ADV Part 1, Schedule D.

## 3. Separate Account Management

SMC also serves as discretionary adviser to certain clients who open Managed Accounts, with full power and authority to supervise direct investments for such accounts without prior consultation with such clients.

SMC’s investment decisions and advice with respect to each Managed Account will be in accordance with a client’s investment objectives and guidelines in the client’s investment management agreement, as well as any written instructions provided by the client to SMC. SMC may invest Managed Accounts in direct investments in securities or in its Private Funds or independent funds managed by unaffiliated third parties.

#### 4. Advisory Services Offered by SMC Fixed Income Management, LP

SMC FIM offers:

- a. Specialized fixed income management for institutions, trusts, and high-net-worth individuals. As part of this service, SMC FIM seeks to achieve investment objectives of clients by investing in a portfolio of assets consisting primarily of debt securities and other obligations issued by or on behalf of states, territories, and possessions of the United States and the District of Columbia and their political subdivisions, agencies, and instrumentalities.
- b. Tax-Free and Taxable Municipal Cash Management Strategy – SMC FIM invests in a diversified portfolio of tax exempt municipal variable rate demand notes (“**Exempt VRDNs**”) due to their high degree of liquidity and safety of principal. The Exempt VRDNs utilized in this strategy are secured by municipal issuers, the creditworthiness of which is reviewed and confirmed prior to purchase by SMC FIM. SMC FIM will only consider for purchase municipal issuers with a credit quality rating of A- or higher. Exempt VRDNs may also have a letter of credit (“**LOC**”) issued by a bank or financial institution, or an insurance policy to provide funding for the payment of interest and principal should the borrower be unable to pay.

Although they have longer-term maturities, Exempt VRDNs can be tendered at par at any time generally with 1-day notice or 7-day notice, depending on the put feature of the note purchased. A liquidity facility, enabling investors to receive the tender price (par), is provided by a bank through an LOC or Standby Purchase Agreement (“**SBPA**”) or similar instrument. Absent an LOC, bond insurance or other form of credit enhancement, Exempt VRDNs are generally unsecured obligations of the issuer or borrower. Exempt VRDNs also generally have mandatory and optional redemption features, allowing the borrower or issuer to repurchase them at par. If for any reason the liquidity facility contracted (LOC or SPBA) becomes invalid, it is the obligation of the issuer to provide liquidity upon demand according to the terms of the holder’s put option.

- c. Municipal Intermediate Strategy – SMC FIM seeks to establish and maintain a diversified portfolio of tax-exempt municipal debt obligations with an average maturity of 6 to 12 years and an average duration of 4 to 7 years from date of purchase. This Investment Strategy seeks to provide tax-free income and preserve principal. This Investment Strategy utilizes a laddered approach with the aim of maximizing tax-free income, preserving principal, and minimizing interest rate risk. The securities held in this portfolio are selected based on investment grade or higher credit quality and are generally expected not to be subject to the Alternative

Minimum Tax. SMC FIM actively manages this portfolio. In addition, based on client preferences, SMC FIM may manage this portfolio for national or state-specific exposure.

- d. Municipal Opportunities Plus Strategy – SMC FIM invests in a diversified portfolio of municipal debt obligations with a maturity range of 1 to 30 years and an average duration of 1 to 15 years from date of purchase. This investment strategy seeks total return by taking an opportunistic approach to the municipal market. Securities selected for this portfolio can include investment grade, non-investment grade, and non-rated municipal issues. Active yield curve positioning is also a component of the strategy. SMC FIM may select taxable or tax-exempt municipal securities in seeking total return opportunities. In addition, this portfolio is highly flexible and also can be structured to a risk profile of investment grade only, with maximum maturity of 20 years and duration limit of 10 years.
- e. 1-to-15-Year Municipal Bond Ladder – This Investment Strategy seeks to balance between total return and price volatility of a fixed income portfolio due to interest rate changes. This is accomplished by structuring a portfolio of approximately equal value bond positions bearing consecutive annual maturities over a selected maturity range. The SMC FIM 1-to-15-Year Municipal Bond Ladder invests in equally weighted par value investment grade tax free municipal securities maturing between 1 and 15 years (from date of purchase). Securities are held to maturity. The proceeds from maturing bonds are reinvested in the longest dated bond of the designated maturity range in order to maintain the ladder structure. The ladder portfolio structure can be customized to a specific maturity range.
- f. Wrap Fee Programs – SMC FIM also provides investment advisory services as portfolio manager to various sponsored wrap fee programs, including programs offered by Wells Fargo, Pershing and Stifel Nicolaus. SMC FIM manages these accounts in the same manner as it manages its other Managed Accounts, and it receives a portion of the wrap fee for providing its services. Please refer to our Form ADV Part 1, Section 5.I for information on the wrap fee programs in which SMC FIM participates.
- g. Portfolio Consulting Services – SMC FIM provides portfolio consulting services to an unaffiliated investment adviser with regard to the management of certain Unit Investment Trusts (“UITs”) that are sponsored, underwritten and distributed by the unaffiliated adviser. SMC FIM advises and consults with the adviser regarding the initial and ongoing fixed income security selection for inclusion in the UITs. However, all UIT investment and trading decisions are made by the unaffiliated adviser, which retains discretion for all UIT portfolio transactions.

## 5. Private Equity Investing – Opportunity Zones

The Tax Cuts and Jobs Act of 2017 enacted section 1400Z-2 of the Internal Revenue Code, which created the qualified opportunity zone program. The program is designed to encourage investment in low-income communities designated as “qualified opportunity zones” by providing tax incentives to invest in “qualified opportunity funds” that, in turn, invest directly or indirectly in the opportunity zones.

West Harlem Innovation Network (“**WHIN**”) is a new division of SMC that manages partnerships that invest in compelling high-potential ideas and early-stage businesses in the life sciences, education technology, augmenting technology, and food and beverage industries primarily in West Harlem and other qualified opportunity zones. WHIN invests in complementary industries and companies that contextually fit with its local neighborhood, and focuses on involving local residents throughout its investment sectors. Using a more traditional private equity model, the WHIN Opportunity Fund, LP (“**WHIN Fund**”) invests in companies that generate community wealth and have measurable impact, such as:

- The growth of individual and municipality incomes through higher-paying jobs and an increased tax base; and
- Increased access to private capital that has both reasonable expectations around returns and a vested interest in the advancement of the community.

Refer to Item 8 for more information about the investment strategy of WHIN. Investors and prospective investors in the WHIN Fund should refer to its offering memorandum for complete information.

## 6. Client Inquiries & SMC Opinions on Products or Services not Offered by SMC

Clients may address inquiries to individual employees of SMC concerning investments, products or services not offered or managed by SMC. Any opinions offered by employees of SMC to the client in response to such inquiries do not constitute the views or investment advice of SMC, nor is SMC compensated for such information. Such investments, products, or services are not subject to SMC’s fiduciary duty with respect to the management of the client’s account, and SMC is not liable for any action that the client may take on the client’s own initiative as a result of any such inquiry or any communications it may have with any employee of SMC on such issues. Furthermore, the client agrees not to hold SMC liable for such opinions or views.



## Item 5 – Fees and Compensation

### Private Fund Management

While it is the general policy of SMC to charge fees to its clients in accordance with the fee schedules in the offering documents (or investment management agreement in the case of Managed Account clients), SMC has the ability to negotiate alternative fee arrangements with clients based on specific circumstances and on a case-by-case basis.

The fees paid to SMC for investment advisory services are separate and distinct from those fees and expenses charged by (i) the sub-managers of the underlying pooled investment vehicles to which SMC may allocate Private Fund assets and (ii) the sub-advisers that SMC may engage with respect to certain Private Fund investments. Such sub-managers and sub-advisers may also charge management fees and/or performance-based compensation. Similarly, SMC FIM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that are incurred by the client. Clients may also incur certain charges imposed by custodians, brokers, and other third parties such as custodial fees, sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

In certain circumstances, SMC may invest one of its Private Funds into an affiliated Private Fund. However, fees are always waived at the underlying fund level in such circumstances.

SMC does not typically invest Private Fund assets in mutual funds; however, it may utilize mutual funds to sweep cash that is in the Private Funds. All fees paid to SMC for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders, including management fees, fund expenses, and distribution fees.

For Private Funds, SMC's management fees and performance-based compensation are deducted from the investors' accounts. Management fees are non-refundable unless the Private Fund is terminated pursuant to its terms, in which case the unearned *pro rata* portion of the management fee (based on days remaining in the period) will be returned to the Private Fund and made available for distribution to investors in connection with its liquidation. Performance-based compensation may be subject to clawback from the Private Fund's general partner in certain circumstances.

The fees applicable to each Private Fund are set forth in detail in each of the Fund's respective offering documents.

- a) SMC Holdings II, LP – SMC is entitled to a monthly management fee, at the end of each month, equal to 0.166% (2.0% annualized) of the net asset value of the outstanding

interests at the beginning of the month, payable as soon as practicable. SMC is also entitled to an incentive allocation equal to 20% of the investment proceeds of the fund after 100% of each limited partner's aggregate capital contributions are returned, subject to a preferred return of 6%. (Note: Fees vary by fund share class).

- b) SMC Private Equity Holdings, LP – SMC is entitled to a quarterly management fee, at the beginning of each quarter, equal to 0.5% (2.0% annualized) of each investor's capital commitment, payable as soon as practicable. SMC is also entitled to an incentive allocation equal to 20% of the investment proceeds of the fund after 100% of each limited partner's aggregate capital contributions are returned, subject to a preferred return of 8%. (Note: Fees vary by fund share class).
- c) SMC Growth Capital Partners II, LP – SMC is entitled to a management fee, callable semi-annually in advance by the fund, as detailed in the fund's Private Placement Memorandum. The fund will maintain the money in its account and will pay SMC, at the beginning of each quarter, a management fee equal to 0.5% (2.0% annualized) of each investor's capital commitment until the end of the investment period, and, thereafter, 0.5% (2.0% annualized) based upon unrecovered capital contributions to the fund (including any capital that has been reserved for follow-on investments but net of any permanent write-offs or write-downs of portfolio investments). SMC is also entitled to an incentive allocation equal to 20% of the investment proceeds of the fund after 100% of each limited partner's aggregate capital contributions are returned, subject to a preferred return of 8%.
- d) SMC Growth Capital Partners III, LP – SMC is entitled to a management fee, payable quarterly in advance by the fund, equal to 0.5% (2.0% annualized) of each investor's capital commitment until the fifth anniversary of the final closing, and, thereafter, 0.5% (2.0% annualized) based upon unrecovered capital contributions to the fund (including any capital that has been reserved for follow-on investments but net of any permanent write-offs or write-downs of portfolio investments). SMC is also entitled to an incentive allocation equal to 20% of the investment proceeds of the fund after 100% of each limited partner's aggregate capital contributions are returned, subject to a preferred return of 8%.
- e) SMC Total Return Fund, LP – SMC is entitled to a quarterly management fee at the beginning of each quarter equal to (i) 0.3125% (1.25% annualized) of the net asset value of the outstanding Class A interests at the beginning of the quarter and (ii) 0.50% (2.00% annualized) of the net asset value of the outstanding Class B interests at the beginning of the quarter, in each case payable as soon as practicable. Generally at the end of each fiscal

year, an amount equal to (x) 15% of the net capital appreciation of the Class A liquid assets and (y) 17.5% of the net capital appreciation of the Class B liquid assets, subject in each case to a 7% hurdle and subject to adjustments for withdrawals, is allocated to SMC.

- f) SMC Private Capital Fund, LP – SMC is entitled to a management fee, payable quarterly in advance by the fund, as detailed in the fund’s Private Placement Memorandum. The fee is equal to 0.25% (1.0% annualized) of each investor’s capital commitment until the end of the investment period, and, thereafter, 0.25% (1.0% annualized) of invested capital. The management fee for each limited partner will be calculated as of the initial closing based on total commitments, regardless of when a particular limited partner is actually admitted to the fund. The management fee may also be paid out of investment proceeds, income from temporary investments of the fund and any other cash otherwise available for distribution. SMC is also entitled to an incentive allocation equal to 10% of the investment proceeds of the fund after 100% of each limited partner’s aggregate capital contributions are returned, subject to a preferred return of 6%.
- g) SMC Private Capital Fund II, LP – SMC is entitled to a management fee, payable quarterly in advance by the fund, as detailed in the fund’s Private Placement Memorandum. The fee is equal to 0.375% (1.5% annualized) of each investor’s capital commitment until the end of the investment period, and, thereafter, 0.375% (1.5% annualized) of invested capital. The management fee for each limited partner will be calculated as of the initial closing based on total commitments, regardless of when a particular limited partner is actually admitted to the fund. The management fee may also be paid out of investment proceeds, income from temporary investments of the fund and any other cash otherwise available for distribution. SMC is also entitled to an incentive allocation equal to 15% of the investment proceeds of the fund after 100% of each limited partner’s aggregate capital contributions are returned, subject to a preferred return of 5%.
- h) WHIN Opportunity Fund, LP – SMC is entitled to a management fee, payable quarterly in advance by the fund, equal to 0.5% (2.0% annualized) of each investor’s capital commitment until the end of the investment period, and, thereafter, 0.5% (2.0% annualized) based upon unrecovered capital contributions to the fund (including any capital that has been reserved for follow-on investments but net of any permanent write-offs or write-downs of portfolio investments). SMC is also entitled to an incentive allocation equal to 20% of the investment proceeds of the fund after 100% of each limited partner’s aggregate capital contributions are returned, subject to a preferred return of 6%.
- i) Spring Mountain Blue Fund, LP – SMC is entitled to an annual management fee, payable quarterly in advance, equal to 1.0% annualized. SMC is also entitled to an incentive

allocation equal to 5% of the investment proceeds of the fund after 100% of each limited partner's aggregate capital contributions are returned, which allocation increases to 10% each after each limited partner has received a 20% annual compounded rate of return on its aggregate capital contributions.

SMC charges each limited partner with a one-time subscription fee (the "**Subscription Fee**") by the fund equal to 2% of the amount of such limited partner's subscription into the fund. The Subscription Fee will be charged to each limited partner in addition to each limited partner's capital contribution to the fund. The Subscription Fee will be shared equally between the Advisor and the Consultant.

#### Separate Account Management by SMC

Annual fees for SMC Managed Accounts are negotiated on a case-by-case basis. SMC charges an annual fee for investment services as a percentage of assets under management that generally ranges from 1.0 % to 2.0%. The exact fee for each client will be negotiated and will be based on the total assets under management, complexity of investment guidelines or restrictions initiated by a client, or report services required/requested by the client, among other factors.

The specific manner in which fees are charged by and paid to SMC is established in the client's written agreement with SMC. Fees are generally billed in advance each calendar quarter based on the market value of the assets under management. Upon termination of your advisory services, SMC will promptly refund any prepaid, unearned fees. Clients may elect to be billed directly for fees or to authorize SMC to directly debit fees from client accounts. *If clients elect to authorize SMC to directly debit fees from their accounts, clients should review the billing invoice to verify the fee calculation against the corresponding debit as reflected in their account statement provided by their custodian.*

To the extent that Managed Account's assets are invested in a Private Fund advised by SMC, the underlying fund will waive any fees or other compensation payable to SMC or its affiliates in connection with such investment.

#### Advisory Services Offered by SMC FIM

- a. For its fixed income management services, SMC FIM charges an annual fee as a percentage of assets under management that generally ranges from 0.05% to 0.30%. The exact fee for each client will be negotiated and will be based on the total assets under management, complexity of investment guidelines or restrictions initiated by a client, and report services required/requested by the client, among other factors. SMC FIM may charge different clients receiving the same services different fees. The fee schedules herein are SMC FIM's basic fee schedules generally charged to clients,

absent negotiable circumstances. Clients within a wrap fee program should refer to the program sponsor agreement for a discussion of fees.

The specific manner in which fees are charged by and paid to SMC FIM is established in the client's written agreement with SMC FIM. Clients may elect to be billed directly for fees or to authorize SMC FIM to directly debit fees from client accounts. *If clients elect to authorize SMC FIM to directly debit fees from their accounts, clients should review the billing invoice to verify the fee calculation against the corresponding debit as reflected in their account statement provided by their custodian.*

- b. For the provision of portfolio consulting services to AAM, SMC FIM generally receives 0.20% initially and 0.05% annually, payable quarterly, on the average assets remaining in the applicable UIT.

A client agreement with SMC FIM may be canceled immediately upon receipt of written notice, or any other period mutually agreed upon between SMC FIM and the client and specified in an advisory agreement. Upon termination of any account, any prepaid, unearned fees will be promptly refunded on a *pro rata* basis based on days remaining in the period, and any earned, unpaid fees will be due and payable.

SMC FIM's fees are exclusive of, and in addition to, brokerage commissions, transaction fees, and other related costs and expenses that will be incurred by the client. Clients will incur certain charges imposed by investment managers, custodians, brokers, and other third parties such as custodial fees, sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Clients may invest in other collective investment vehicles managed by third-party investment managers that also charge management fees, other fund expenses, and a possible distribution fee as disclosed in the collective investment vehicles' prospectuses or offering memoranda. All fees paid to SMC FIM for investment advisory services are separate and distinct from the fees and expenses charged to shareholders by mutual funds or other collective investment vehicles, including money market funds in which SMC FIM client assets may be held or swept. Accordingly, the client should review both the fees charged by the funds and the fees charged by SMC FIM to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

#### SMC Private Fund Investor Expenses

In addition to management fees (if applicable), there are additional expenses charged to each SMC client or fund investor related to each Private Fund's operations and investment activities, including, without limitation: (i) out-of-pocket expenses associated with the

organization and maintenance of the fund; (ii) accounting and auditing fees; (iii) administrator fees; (iv) legal, compliance and regulatory-related expenses; (v) consultant or advisory fees; (vi) portfolio company monitoring fees; (vii) investor reporting and printing expenses; (viii) broken-deal fees; (ix) transaction expenses, including brokerage and custodian fees; (x) investment-related travel and accommodation expenses; (xi) D&O professional liability insurance costs; and (xii) litigation costs. Investors are also charged additional fees by their service providers, such as a fee from a bank to wire money.

Clients and fund investors also bear the cost of certain organizational, administrative, offering and operational expenses, including expenses related to the organization and formation of any co-investment vehicle or parallel vehicle that may be created to facilitate investments alongside a Private Fund. Additionally, if at any time SMC or the general partner creates any holding company, special purpose vehicle or other similar structuring vehicle to facilitate investments, the fund investors will typically bear all expenses related to the vehicle's organization and formation and other expenses incurred solely for the benefit of the created vehicle.

It is SMC's practice to offer co-investments to its investors, as well as qualified employees in some cases, on a deal-by-deal basis when the allocation opportunity exists. SMC does not have a predetermined group or investment vehicle that always receives co-investment opportunities. Private Funds may incur expenses attributable to investments that do not proceed to completion. While co-investors can participate in these transactions and benefit from the sourcing of investments from such Private Funds, broken deal expenses may, in the relevant general partners' sole discretion, be borne fully by the relevant Private Funds.

*Clients and investors are advised to read their investment management agreement (in the case of separately managed accounts) and/or fund offering documents for a complete description of applicable expenses.*

### Third-Party Managed Fund Fees

Client and investor fees are exclusive of third-party fees, costs and expenses incurred in connection with underlying third-party managed investment funds, including, without limitation, those incurred for: (i) acquiring, managing and disposing of investment fund assets; (ii) due diligence and monitoring of portfolio companies; (iii) legal counsel, accountants, service providers and other consultants (including fees in connection with the provision of administration, financial, valuation, accounting and reporting services to the Investment Fund and its limited partners); (iv) advisory board and investor meeting expenses; (v) expenses related to insurance and litigation matters; (vi) administrative, operating and marketing/offering activities; (vii) costs related to the use of credit facilities; and (viii) investment-related travel and accommodations.

### SMC Expenses

Unless provided for in the applicable advisory agreement or fund disclosure documents, SMC is responsible for the costs and expenses of its own internal overhead, namely the cost of its office space, supplies, salaries or other compensation of its employees (but excluding those of a service provider, and costs of consultants, advisors and others retained to provide services for SMC's Private Funds or Managed Accounts).

### Ancillary Fees or Income Earned by SMC

SMC and its affiliates may earn ancillary fees or income from services provided or related to portfolio investments or in connection with prospective portfolio investments, such as, without limitation: advisory fees, due diligence fees, structuring fees, servicing fees, directors' fees, break-up fees or any similar fees. Generally, the management fee borne by the Private Fund investors participating in the investment to which such ancillary fees directly relate, in the discretion of SMC, will be reduced by an amount of such ancillary fees. Other types of fees paid to, or income earned by, SMC and its affiliates will not reduce the management fee.

### Side Letter Agreements

SMC may enter into side letter arrangements with one or more Private Fund investors, providing such investors with different or preferential rights or terms, including but not limited to, different or preferential fee structures, co-investment rights, redemption, and liquidity or transfer rights. Except as otherwise agreed with an investor or otherwise set out in the Private Fund's offering documents, SMC or its affiliates are not required to disclose the terms of side letter arrangements with other investors in the same Private Fund.

### Fee Waivers

SMC, in its sole discretion, can negotiate, waive, or reduce any management fee or performance-based fees, or calculate such fees differently, with respect to any client or Private Fund investor, including, without limitation, any employee, related party or affiliate of SMC.

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

SMC charges performance-based fees to its clients, which in all cases shall comply with the provisions of the Investment Advisers Act of 1940, as amended. However, SMC does not charge a performance-based fee to all of its clients. In measuring clients' assets for the

calculation of performance-based fees, SMC may in some instances include realized and unrealized capital gains and losses. Performance-based fee arrangements can create an incentive for SMC to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher-fee-paying accounts over other accounts in the allocation of investment opportunities. SMC follows procedures designed to ensure that all clients are treated fairly and equitably and to prevent this conflict from influencing the allocation of investment opportunities among clients.

For its advisory services, SMC FIM does not charge any performance-based fees.

## **Item 7 – Types of Clients**

Investors in SMC's Private Funds may include individuals, high-net-worth individuals, banks, thrift institutions, corporations, pension and profit sharing plans, trusts, estates, or charitable organizations. SMC also provides advice directly to a limited number of Managed Accounts (which may include banks, trusts, insurance companies, or corporations) and third-party portfolios.

Investors in SMC's Private Funds are generally required to make minimum initial investments, depending on the Private Fund, of at least \$100,000 to \$1 million at the time of subscription, subject to SMC's right to accept lesser amounts. In addition, each Private Fund maintains minimum subscription amount requirements, and investors should refer to the applicable Private Fund offering documents for a complete description.

SMC FIM offers investment management services for institutional and high-net-worth clients, including trusts. SMC FIM also provides portfolio consulting services to an asset management firm. SMC FIM generally requires a minimum account size of \$1 million, subject to negotiation, for separately managed accounts. Wrap fee sponsors may have different account minimums.

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

The Total Return and Private Capital groups employ a strategy of opportunistic investing, while the Growth Equity and Opportunity Zones groups follow more traditional growth and private equity models. In addition, SMC Fixed Income Management invests Managed Accounts in municipal securities with a broad range of maturities and credit ratings, including both investment grade and below-investment grade.



## SMC Private Funds

### Opportunistic Investing in Traditional and Alternative Asset Classes

SMC employs an investment strategy of opportunistic exposure spanning the alternative investment spectrum that includes both direct investments in securities and other assets as well as investments in other hedge funds, private equity funds, private credit funds and managed accounts managed by unaffiliated third parties. SMC seeks to capitalize on themes that have secular tailwinds driving value or opportunities where value can be realized from dislocations, structural inefficiencies, unique relationships with issuers or sponsors, and/or situations where an information asymmetry exists.

For this opportunistic investment strategy, SMC sources ideas from its own research as well as a large network of capital allocators, industry experts and capital introduction groups. The path from investment idea to portfolio investment is multifaceted and requires a number of steps in the underwriting process before an investment is made. The investment teams will evaluate ideas on their individual merits and consider the optimal investment structure.

- ***Thesis***

Each investment is underwritten with an investment thesis that addresses the opportunity, the drivers of return and the macro/micro risks.

- ***Structure***

Investment structure matters. Each investment has dynamic risk and reward characteristics, and SMC attempts to invest in the structure that provides the best risk-adjusted return outlook, including partnerships where outsourcing investment expertise is deemed to be optimal.

- ***Market***

Illiquidity has a cost. Valuations in public and private markets often differ, and having the ability to take advantage of illiquidity premiums and time arbitrage can enhance returns.

- ***Investment***

Once the underwriting process is successfully completed, the position is evaluated relative to existing investments, return drivers and risk to determine appropriate sizing and price targets.

The Private Funds that SMC manages utilizing this strategy are:

- SMC Total Return Fund, LP;

- SMC Private Capital Fund, LP;
- SMC Private Capital Fund II, LP;
- Spring Mountain Blue Fund, LP; and
- SMC Holdings II, LP.

### *Total Return Fund*

This fund's opportunistic mandate is expected to result in a portfolio of idiosyncratic equity, credit, and alternative investment strategies weighted toward a short- to medium-term duration. When fully invested, it is expected to hold investments in approximately 40-50 unique situations with the intent of ensuring that "catalyst duration" is diversified. A portfolio of investments with short, medium and longer-term durations is intended to mitigate short-term market shocks, which are hard to predict.

Total Return Fund allocates capital opportunistically across key themes and idiosyncratic investment opportunities.

### Thematic Investments

The fund seeks exposure to themes SMC believes have long-term secular tailwinds and risk/reward asymmetry. Investments within this bucket will include direct (public and private) securities, mutual funds, ETFs, private credit, and long/short equity hedge funds.

### Opportunistic Investments

The fund seeks to complement Thematic Investments with exposure to investment strategies that SMC believes offer compelling risk/reward asymmetry often caused by dislocations, out-of-favor sentiment, complexity, investment capacity, and/or liquidity. This strategy is expected to have relatively low correlations to equity markets, where the drivers of returns are generally not dependent on broader market movements, and to other fund investments.

### *Private Capital Funds*

SMC Private Capital and SMC Private Capital II are committed capital funds that consist of the following components, with a target of approximately one-third of capital commitments allocated to each:

***Private credit funds*** are intended to provide investors with high current cash yields and enhanced returns through underwriting fees and warrants. The fund's private

credit portfolio focuses on funds that make loans to small and mid-sized companies through senior secured loans.

***Special situations*** include structured equity, direct and co-investments, mezzanine loans and other subordinated debt.

***Private equity funds*** include small and mid-market buyout and growth equity funds (under \$500 million in size), along with a few select venture capital funds.

### *Blue Fund*

This fund generally seeks long-term growth of capital by allocating its assets among multiple investment managers who employ one or more non-traditional and alternative investment strategies including, but not limited to, equity long short, event driven and credit, relative value, tactical trading, and opportunistic fixed income strategies, each of which are described in the fund's offering memorandum. SMC also may opportunistically seek out areas of potential high opportunity, including, without limitation, involving special situations and private equity and may, but is not required to, allocate up to 20% of its assets to each of these areas. Special situation investing will typically involve so-called "orphaned" securities – i.e., securities that often are ignored by investors as a result of their complexity, illiquidity, poor construction, and uncertainties, among other things. Blue Fund is currently in liquidation.

### *Holdings II Fund*

This fund's principal investment objective is to generate attractive, risk-adjusted returns, principally by seeking to capitalize on market opportunities for orphaned investments including equity securities, debt obligations, and other instruments. Holdings II Fund is divided into separate classes, each of which has its own investment objective, terms and investors. The investments made by this fund are either standalone ideas or co-investments made alongside other Private Funds.

### Private Equity Investing

#### *Growth Equity Group*

In addition to the multi-strategy Private Funds described above, SMC also manages Private Funds that follow a more traditional private equity model, applying a growth equity strategy. For this strategy, SMC has evolved from initially making co-investments across the full private equity spectrum, including buyouts, recapitalizations, restructurings, mezzanine financings, and growth capital, to now focusing on technology-enabled services and healthcare companies. We focus on companies inadequately served by the capital markets because of stage or geography. In particular, we invest in companies too early for traditional

growth equity investors. Growth equity firms typically invest in companies with over \$15 million in revenues and seek to initially invest at least \$20 million of equity capital. Many of the companies we diligence are not candidates for venture capital investors either. VCs invest in smaller companies but seek companies growing revenues at least 100% annually with the potential to return the entire fund. Not every early-stage company, however, wants to follow a VC mandate to grow at all costs and strive to achieve “unicorn status.” Many operators at early-stage companies want to pursue a more measured growth strategy that does not fit the mandates of a traditional VC firm. There is thus a large number of companies that are underserved from a capital perspective. This capital gap is particularly acute outside of the major metropolitan areas where the majority of VC investments are made. We source the majority of our growth equity investment opportunities through our extensive network of relationships and through targeted, active deal searches in the early-stage growth equity market, where fewer professional resources are employed to market companies and raise capital. The leadership team of SMC has created a broad and deep network of later-stage investment firms, earlier-stage investment firms, service providers, industry consultants and industry executives. We cultivate an active dialogue with our network, through which we are able to surface proprietary opportunities. In addition to the broad reach of our network, our Strategic Advisory Board provides SMC access to uncommon situations typically not known to the broader investment market.

The following SMC Private Funds employ this strategy:

- SMC Private Equity Holdings, LP;
- SMC Growth Capital Partners II, LP; and
- SMC Growth Capital Partners III, LP.

Growth Capital Partners II and its successor, Growth Capital Partners III, make growth equity investments principally in technology-enabled and healthcare companies in North America. In technology, they focus primarily on enterprise software companies, with a preference for Software-as-a-Service (SaaS) companies as well as businesses with ecosystem or data advantages. Within healthcare, they focus primarily on healthcare IT and services companies. SMC looks for companies that are underserved by existing capital providers either because of stage of investment or geography, and then partners constructively with them to bring its experience and networks to help accelerate value creation.

PE Holdings is divided into separate classes, each of which holds a co-investment that was made alongside Growth Capital Partners II or Growth Capital Partners III.

*Opportunity Zones Group*

The WHIN Fund utilizes a more traditional private equity model to invest in early-stage, high-impact entrepreneurship and to enable, catalyze and develop innovative companies, jobs and talent in qualified Opportunity Zones. The fund seeks to achieve this goal by creating and developing companies in four industries – Life Sciences, Education Technology, Augmenting Technology, and Food & Beverage. The WHIN Fund is focused on nurturing new companies, building a workforce, facilitating training and filling employment positions within the WHIN ecosystem. WHIN taps into a wide range of synergies that enable it to achieve its mission. In particular, we see synergies among the four focus industries that will enable us to reach into the community for talent and ideas. WHIN team members are active participants and investors in the companies the WHIN Fund helps develop.

The WHIN Fund invests across multiple stages of financing, focuses on platform-potential companies with long-term value propositions. The fund utilizes both a builder and a studio model of development. The WHIN team partners and actively works with local organizations and key stakeholders to further its objectives and galvanize local support. The WHIN Fund's guiding investment and operational strategies are predicated on diversity, inclusivity, enablement, scalability, innovation and alignment.

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The investment program of each SMC Private Fund could be considered speculative and entails substantial risks. There can be no assurance that the investment objectives of any Private Fund will be achieved, and results may vary substantially over time.

## **SMC Fixed Income Management**

### Investment Methodology and Strategy

SMC FIM generally invests client assets in municipal securities with a broad range of maturities and credit ratings, including both investment grade and below-investment grade.

Municipal securities may include, but are not limited to:

- Municipal Leases and Certificates of Participation;
- Municipal Notes of various types;
- Tax-Exempt Commercial Paper;
- Pre-Refunded Municipal Securities;
- Private Activity Bonds;
- Residual Interest Municipal Securities;

- Tender Option Bonds;
- Insured Municipal Securities;
- Municipal Bonds with Credit Enhancements;
- Zero and Stepped-Coupon Bonds;
- Structured Notes; and
- Hybrid Investments.

### *Research Process*

SMC FIM can invest in municipal securities with a broad range of maturities and credit ratings, including both investment grade and below-investment grade municipal securities. In managing a client's portfolio of municipal securities, SMC FIM adjusts the portfolio's duration and overall credit quality in light of changing market and economic conditions. In making decisions with respect to specific municipal securities, SMC FIM employs an approach driven primarily by proprietary research regarding prevailing interest rates, economic fundamentals at both the national and state level, and in-depth credit research conducted by its investment staff.

The two principal classifications of municipal securities are "general obligations" and "revenue obligations." General obligations are secured by the issuer's pledge of its credit and taxing power for the payment of principal and interest. Revenue obligations are payable from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source but not from the general taxing power. SMC FIM considers both broad economic and issuer-specific factors in selecting a portfolio designed to achieve the client's investment objective. In assessing the appropriate maturity, rating, and sector weightings of an account, SMC FIM considers a variety of factors that are expected to influence economic activity and interest rates. Once SMC FIM determines the preferable characteristics of its assets allocated to municipal securities, it selects individual securities based upon the terms of the securities (such as yields compared to U.S. Treasuries or comparable issues), liquidity and rating, sector, and issuer diversification.

### *Investment Thesis*

SMC FIM attempts to identify investment grade and below-investment grade municipal securities that are trading at attractive valuations relative to the evaluation of the issuer's creditworthiness and, with respect to private activity bonds, the profit potential of the corporation from which the revenue supporting the bonds is derived. SMC FIM's overall investment approach is both top-down and bottom-up, first seeking to identify the sectors

or regions of the municipal bond market that present the best relative value opportunities and then basing the overall sector and regional weightings on that determination. After establishing the overall regional and sector weightings, SMC FIM focuses on selecting those securities within each sector or region that meet its fundamental criteria.

### *Credit Management*

SMC FIM can invest client accounts in municipal securities with a broad range of credit ratings, including both investment grade and below-investment grade municipal securities.

Securities of below-investment grade quality are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal and are commonly referred to as "junk bonds" or "high yield securities." They involve greater risk of loss, are subject to greater price volatility, and are less liquid, especially during periods of economic uncertainty or change, than higher rated municipal securities.

SMC FIM will determine the allocation of a client's portfolio assets among securities with different credit ratings depending upon its evaluation of factors such as the spread between the yields on municipal securities of different ratings, changes in default rates, general economic conditions, and the outlook for fiscal issues facing municipal issuers. Generally, as the spread between the yield on investment grade and below-investment grade securities widens, SMC FIM will allocate a greater portion of assets to non-investment grade municipal securities. If the spread based on relative credit quality narrows, SMC FIM may determine that high yield municipal securities no longer offer a sufficient risk premium and increase the average credit quality of the client's portfolio. As the economy strengthens and the default risk lessens, SMC FIM can increase investment in lower quality, non-investment grade securities.

SMC FIM also seeks to mitigate the risks of investing in below-investment grade securities through an approach driven primarily by fundamental research to assess an issuer's credit quality and the relative value of its securities. Moreover, with respect to below-investment grade securities that are private activity bonds, SMC FIM may consider securities that are backed by revenue from publicly traded companies. SMC FIM can invest in residual interest municipal securities known as inverse floaters. Compared to similar fixed rate municipal securities, the value of these securities will fluctuate to a greater extent in response to changes in prevailing long-term interest rates. Moreover, the income earned on residual interest municipal securities will fluctuate in response to changes in prevailing short-term interest rates. Thus, when such securities are held, an increase in short- or long-term market interest rates will adversely affect the income received from such securities. To the extent an account has an issuer's preferred shares; an increase in short-term rates would also result in an increased cost of leverage, which would adversely affect the income of an account.

### *Duration*

Duration is a measure of the expected life of a debt security that is used to determine the sensitivity of the security's price to changes in interest rates. The longer the duration of a portfolio, the more sensitive it generally is to changes in interest rates. SMC FIM generally will modify the average duration of a portfolio in response to market conditions and may employ certain strategies to reduce a portfolio's interest rate sensitivity, including investments in interest rate swap or cap transactions. There is no assurance that SMC FIM will do so or that such strategies will be successful.

SMC FIM generally will select municipal securities with a view to monitoring the duration of a client's portfolio of municipal securities, based primarily on its outlook for interest rates. SMC FIM will consider economic trends, Federal Reserve Board actions, and capital markets activity, among other factors, in developing its outlook for interest rates. SMC FIM believes that maintaining duration at an appropriate level offers the potential for above-average returns while limiting the risks of interest rate volatility.

### *Risk Management*

The ability of a municipal issuer to meet its obligations on municipal securities (other than private activity bonds) is subject to the risk that the municipal issuer of the securities will not have sufficient revenues from taxes and other sources of income to pay interest and repay principal on the municipal securities. The level of municipal income will be adversely affected by various factors, including general economic activity, real estate values, and changes in governmental expenses. The obligations of the issuer to pay the principal of and interest on a municipal security are subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Act, and laws, if any, that may be enacted by Congress or state legislatures extending the time for payment of principal or interest or imposing other constraints upon the enforcement of such obligations. There is also the possibility that, as a result of litigation or other conditions, the power or ability of the issuer to pay when due the principal of or interest on a municipal security will be materially affected.

The amount of public information available about the issuance of municipal securities is generally less than that for corporate equities or bonds, and the investment performance of client accounts will therefore be more dependent on the analytical abilities of SMC FIM than if SMC FIM were managing stock or taxable bond accounts. The secondary market for municipal bonds, particularly that of below-investment grade municipal securities in which client accounts may be invested, also tends to be less well-developed or liquid than many other securities markets, which will adversely affect the ability to sell municipal securities at attractive prices.



Municipal securities may be backed by letters of credit or other forms of credit enhancement issued by domestic or foreign banks or by other financial institutions. The credit quality of these banks and financial institutions could, therefore, cause a loss. Letters of credit and other obligations of foreign banks and financial institutions involve risks in addition to those of domestic obligations because of less publicly available financial and other information, less securities regulation, potential imposition of foreign withholding, and other taxes, war and expropriation, or other adverse governmental actions. Foreign banks and their foreign branches are not regulated by U.S. banking authorities and are generally not bound by the accounting, auditing, and financial reporting standards applicable to U.S. banks.

## **Risks of Loss**

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

An investment in the Private Funds or SMC supervision of a Managed Account involves a high degree of risk. There can be no assurance that a specific Private Fund's investment objective will be achieved or that the investors will receive a return of their capital. Client assets are subject to various market, currency, economic, political, business, and other associated risks. In addition, investment results will vary substantially on a weekly, monthly, quarterly and annual basis.

## **Material Risks**

Certain material risks presented by the strategies pursued by SMC are set forth below. Any or all of such risks could materially and adversely affect investment performance and could cause investors to lose substantial amounts of money. ***For Private Fund investors, additional information related to risks is contained in the offering documents for each Private Fund. This Brochure does not purport to contain a complete disclosure of all risks that are relevant to a prospective investor in a Private Fund or a Managed Account.***

- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect a Private Fund's investments.
- A Private Fund may not achieve its investment objectives. A strategy may not be successful, and investors may lose some or all of their investment.
- Some of the positions taken by SMC are in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies.
- SMC occasionally engages in short selling, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.

- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the United States and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- Some Private Fund investments are concentrated positions. Therefore, a loss in any one position, industry or sector in which a fund has invested may cause significant losses.
- Certain Private Funds are concentrated in securities of technology and growth sector companies, many of which may have small-sized market capitalizations. Those securities involve substantially higher risks than do investments in securities of non-technology and growth sectors and larger companies.
- SMC has invested in companies involved in (or that were the target of) special situations such as acquisition attempts, liquidations, workouts, spin-offs and other similar transactions. There is uncertainty concerning the outcome or occurrence of these special situations and therefore any investment in such companies entails an increased risk of loss.
- Some of a clients' positions may be or become illiquid, in which case SMC may not be able to sell such positions.
- SMC invests in emerging markets which involves additional risks not typically associated with investing in more established economies or securities markets.
- If the valuation of a Private Fund's assets is inaccurate, SMC might receive more compensation than that to which it is entitled, a new investor in a Private Fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- SMC invests in securities of non-U.S. companies and funds. The risks of these investments include: political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- SMC may use leverage by borrowing on margin or under credit facilities or by investing in derivative instruments (such as options, swaps and futures) which increases volatility and the adverse impact to which Private Funds may be subject.

- SMC occasionally purchases and sells options on securities. The sale of options could result in unlimited loss depending on actual price movement in the underlying security.
- A Private Fund may not be able to generate cash necessary to satisfy investor withdrawals and redemptions. Substantial withdrawals and redemptions in a short period could force SMC to liquidate investments too rapidly, and may so reduce the size of a fund that it cannot generate returns or reduce losses.
- Counterparties such as brokers, dealers, custodians and administrators with which SMC does business on behalf of its Private Funds may default on their obligations. For example, a fund may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- A Private Fund has the ability limit or suspend withdrawals or redemptions of an investor's assets from the fund, though we would expect this to occur only in very limited circumstances.
- SMC may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal redemption rights that it does not provide to other investors or clients.
- A Private Fund will establish a reserve for contingencies if SMC considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- The Private Funds that SMC manages are not registered investment companies under the 1940 Act. SMC believes that this registration is not required because an exemption is available under applicable law. Investors in those Private Funds do not have certain regulatory protection that they would have if this registration was in place.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which could increase the time and resources that SMC would be required to devote to regulatory compliance, to the detriment of investment activities.
- The occurrence of a disaster such as a cyberattack, a natural catastrophe, a pandemic, an industrial accident, a terrorist attack or war, events unanticipated in SMC's disaster recovery systems, or a support failure from external providers, could have an adverse effect on the ability of SMC and its Private Funds to conduct business and on their operations and financial condition, particularly if those events affect SMC's or its Private Funds' computer-based data processing,

transmission, storage, and retrieval systems, or if these events destroy data. If a significant number of SMC's employees were unavailable in the event of a disaster, the ability of SMC and its Private Funds to effectively conduct business would be severely compromised.

- SMC's activities could cause adverse tax consequences to its clients and investors, including liability for interest and penalties.
- SMC and its affiliates may spend significant time on activities that compete with a Private Fund, including investing for other clients and their own accounts. If SMC receives better compensation and other benefits from managing some assets or Private Funds compared to managing other Private Funds, it has an incentive to allocate more time to those other activities. These factors could influence SMC not to make investments on a Private Fund's behalf even if such investments would benefit the fund.
- There is no assurance that the private companies that a Private Fund or other client invests in will complete a public offering or be sold, with the consequence that SMC may not be able to realize value on such positions for several years after the date of the initial investment, if at all. In addition, a Private Fund likely will be subject to lockup-up periods subsequent to an initial public offering or other liquidity event that may restrict its ability to sell a position and distribute realized gains.
- In addition to being illiquid, private companies are subject to a number of other risks, including, but not limited to: (i) high degree of business and financial risk and potential need for additional capital; (ii) substantial variation in operating results from period to period; (iii) additional funding requirements (which may not be available) and potential dilution; and (iv) significant time required for investments to mature and profits (if any) to be realized.
- SMC's Private Funds may be exposed to a variety of litigation risks, due to, for example, actions that SMC or its personnel take as shareholders or as board members of private companies. Those Private Funds may be required to indemnify SMC and its personnel for their losses and defense costs and expenses in connection with such litigation.

***The above is only a brief summary of some of the important risks that a client or investor may encounter. Before deciding to invest in a Private Fund, you should consider carefully all of the risk factors and other information in the fund's offering documents.***

### Risks Specifically Associated with SMC Fixed Income Management

SMC FIM invests primarily in municipal fixed income securities. SMC FIM's investment strategies may be deemed to be a highly specialized investment, and they are not intended as a complete investment program. They are designed only for sophisticated persons who are able to bear the economic risk of the loss of their investment and who have a limited need for liquidity in their investment.

The material risks presented by the strategies pursued by SMC FIM are set forth below. Any or all of such risks could materially and adversely affect investment performance and could cause investors to lose substantial amounts of money. This Brochure does not purport to contain a complete disclosure of all risks that are relevant to a prospective investor in a Managed Account.

- *Call Risk:* Many bonds may be redeemed ("called") at the option of the issuer before their stated maturity date. In general, an issuer will call its bonds if they can be refinanced by issuing new bonds which bear a lower interest rate. A portfolio may then be forced to invest the unanticipated proceeds at lower interest rates, resulting in a decline in a portfolio's income.
- *Credit Risk:* The issuer of a debt security or a guarantor of a security held by a portfolio or counterparty to a transaction may default on its payment obligations or experience a decline in credit quality. Generally, the lower the credit rating of a security, issuer, guarantor or counterparty, the higher the degree of risk as to the payment of interest and return of principal. Also, a downgrade in the credit quality of a security or its issuer or guarantor may cause the security to decline in value and could affect the bond's liquidity and make it more difficult for a portfolio to sell. When a portfolio purchases unrated securities, it will depend on our analysis of credit risk without the assessment of an independent rating organization, such as Moody's or Standard & Poor's. There is always the risk that our analysis of creditworthiness is incorrect or may change due to market conditions.
- *High-Yield Risk:* Debt securities rated below investment-grade, or if nonrated determined to be of comparable quality by us, are commonly known as junk bonds. Junk bonds are considered predominately speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness. In addition, there may be less of a market for these securities, which could make it harder to sell them at an acceptable price. These and related risks mean that a portfolio may not achieve the expected return from non-investment grade debt securities and may be adversely affected by declines in the value of these securities.

- *Income Risk:* The income a portfolio earns will decline due to declining interest rates. This is because, in a falling interest rate environment, a portfolio generally will have to invest the proceeds from maturing portfolio securities (or portfolio securities that have been called, see “Call Risk” above) in lower-yielding securities.
- *Interest Rate Risk:* An increase in interest rates will cause debt securities held by a portfolio to decline in value, and thereby lower a portfolio’s value and its overall return. The magnitude of this decrease is often greater for longer-term fixed income securities than shorter-term securities.
- *Liquidity Risk:* The portfolio may not be able to sell certain debt securities with more limited trading opportunities at a favorable price or time, including high yield securities that have received ratings below investment grade. Recent events have caused the markets for some debt securities to experience lower valuations and reduced liquidity. Consequently, a portfolio will have to accept a lower price to sell a security, sell other securities to raise cash, or give up an investment opportunity, any of which could have a negative effect on a portfolio’s performance. Infrequent trading may also lead to greater price volatility.
- *Management Risk:* A portfolio’s performance will reflect in part our ability to implement its investment strategy and make investment decisions that are suited to achieving a portfolio’s investment objective. A strategy used by us may fail to produce the intended results. A portfolio could underperform its benchmark.
- *Market Risk:* The market value of securities will fall or fail to rise. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. The market value of securities will fluctuate, sometimes rapidly and unpredictably. The market for some types of securities is highly competitive. Portfolios will be competing for investment opportunities with a significant number of financial institutions and institutional investors. Many of these competitors are larger and have greater financial, human and other resources and may in certain circumstances have a competitive advantage over the portfolio managed by us. As a result of this competition, there may be fewer attractively priced investment opportunities, which could have an adverse impact on the ability of a portfolio to meet its investment objectives or the length of time that is required for a portfolio to become fully invested. There can be no assurance that the returns on a portfolio’s investments will be commensurate with the risk.
- *Non-diversification Risk:* A portfolio that is non-diversified, as is typical of single-state municipal bond portfolio, will invest a larger portion of its assets in a limited number of issuers than a diversified portfolio. Because a relatively high percentage of a portfolio’s assets may be invested in the securities of a limited

number of issuers, the portfolio may be more susceptible to any single economic, political or regulatory occurrence than a diversified fund.

- *Political, Economic and Tax Risk:* The value of, the income generated by, and the ability of a portfolio to sell a municipal security may be affected by constitutional amendment, legislative enactments, executive orders, administrative regulations and voter initiatives as well as the economics of the regions in which the issuers in which a portfolio invests are located. Municipal securities backed by current or anticipated revenues from a specific project or asset, such as revenue bonds, can be negatively affected by the discontinuance of the taxation supporting the project or assets or the inability to collect revenues for the project or from the assets. The value of municipal securities also may be adversely affected by future changes in federal or state income tax laws, including rate reductions, the imposition of a flat tax, or the loss of a current state income tax exemption. If the Internal Revenue Service determines that an issuer of a municipal security has not complied with applicable tax requirements, interest from the security could be treated as taxable, which could result in a decline in the security's value. To the extent that a municipal security in which a portfolio invests is not heavily followed by the investment community or such security issue is relatively small, the security may be difficult to value or sell at a fair price.
- *Prepayment and Extension Risk:* Declining interest rates will likely compel borrowers to prepay debt obligations owned by a portfolio. The proceeds received by a portfolio from prepayments will likely be reinvested at interest rates lower than the original investment, thus resulting in a reduction of income to the portfolio. Likewise, rising interest rates could reduce prepayments and extend the life of securities with lower interest rates, which may increase the sensitivity of a portfolio's value to rising interest rates.
- *Valuation Risk:* The portfolio may hold securities for which prices from pricing services may be unavailable or are deemed unreliable. There is a risk that the fair value determined by the custodian or us or the price determined by the pricing service may be different than the actual sale prices of such securities.

***The risk of loss described herein should not be considered to be an exhaustive list of all the risks that clients should consider. Clients should consider the specialized nature of investing in municipal fixed income securities and the risks that such investments bear.***

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SMC or the integrity of its management. SMC has no information applicable to this Item.

## Item 10 – Other Financial Industry Activities and Affiliations

Certain of SMC's clients with individually Managed Accounts also invest in the Private Funds. Absent specific authority, SMC does not exercise discretionary authority with respect to such clients' decisions to invest in the Private Funds. However, SMC typically waives its fees for any client assets invested in the Private Funds through a Managed Account, pursuant to SMC's discretionary authority.

### Board of Directors Positions

Certain employees of SMC, in their separate capacities, serve as members of Boards of Directors for either publicly-traded or privately-held companies. In some cases, these individuals receive compensation for their roles as Board Members. In addition, certain employees are appointed as Board Members of certain companies in which SMC holds investments. SMC has established written policies and procedures for insider trading that prohibit any shareholder, officer or employee of SMC from buying or selling these securities for any personal or client portfolio(s) based on material, non-public information.

## Item 11 – Code of Ethics

SMC strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty, and trust. In seeking to meet these standards, SMC has adopted a Code of Ethics (the "**Code**"). The Code incorporates the following general principles that all employees are expected to uphold, and sets forth sanctions for violations of such principles. Employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Private Funds or Managed Accounts, including the Private Funds' investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times.



The Code also places restrictions on personal trading by employees, including a requirement that they disclose their personal securities holdings and transactions to SMC on a periodic basis and a prohibition on trading securities that are on SMC's Restricted List. The Code also addresses the following potential conflicts: (1) employee investment in initial public offerings and private placements; (2) outside activities; (3) rumor dissemination; (4) gifts and business entertainment; and (5) political contributions. *Investors may request a copy of the Code by contacting the Compliance Department at [compliance@smcinvest.com](mailto:compliance@smcinvest.com).*

SMC also maintains Insider Trading policies and procedures (the “**Insider Trading Policies**”) that are designed to prevent the misuse of material, non-public information. SMC's personnel are required to certify as to their compliance with the Code, including the Insider Trading Policies, on a periodic basis.

### **Restrictions Due to Inside Information**

SMC's Insider Trading Policies prohibit SMC and its personnel from trading for the Private Funds and Managed Accounts or themselves, or recommending trading, in securities of a company while in possession of material, non-public information (“**Inside Information**”) about the company and from disclosing such information to any person not entitled to receive it. By reason of its various activities, SMC may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated. SMC has designed and implemented policies and procedures reasonably designed to shield its investment professionals in most cases from access to Inside Information so that investment decisions are made on the basis of public information only. Among other things, such policies seek to control and monitor the flow of Inside Information to and within SMC, as well as prevent trading based on Inside Information. Accordingly, SMC may not have access to Inside Information that other market participants or counterparties are eligible to receive.

Notwithstanding such policies and procedures, there will be certain cases where SMC either receives Inside Information due to its various activities on behalf of itself or the Private Funds and Managed Accounts or may be restricted in acting for the Private Funds or Managed Accounts, resulting in limited liquidity or using such information for the benefit of certain clients in specific securities. SMC seeks to minimize those cases whenever possible, consistent with applicable law and our Insider Trading Policies, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

SMC may purchase securities from, or sell securities to, related persons for the benefit of the Private Funds and Managed Accounts. All such transactions will be effected in compliance with applicable law, including regulations and interpretations of the Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. Subject to applicable restrictions under ERISA as well as Private Fund and Managed Account investment

guidelines and restrictions, SMC may effect rebalancing or internal cross transactions between the Private Funds. In such cases, one Private Fund will purchase securities held by another Private Fund. SMC effects these transactions at a predetermined time, generally after the close of the market on the last business day of each month, pursuant to a formula that will result in the Private Fund's holding substantially similar securities relative to each Private Fund's net asset value. SMC effects these transactions based on the then current independent market price and consistent with valuation procedures established by SMC. Neither SMC nor any related party receives any compensation in connection with these rebalancing transactions. These cross transactions generally will be made without brokerage commissions being charged. When effecting cross transactions between the Private Funds and Managed Accounts, SMC will have a potentially conflicting division of loyalties and responsibilities with respect to each participating Private Fund and Managed Account. To the extent that such transactions are viewed as principal transactions due to the ownership interest in the Private Fund by SMC and its personnel, SMC will comply with the requirements of Section 206(3) of the Advisers Act, including that SMC will notify the Private Fund (or an independent representative or advisory board of the Private Fund, as provided in the Fund Offering Documents) in writing of the transaction and obtain the consent of the Private Fund (or an independent representative or advisory board of the Private Fund).

In addition, SMC may invest the assets of the Private Funds or Managed Accounts it advises with other Private Funds that SMC advises. To the extent that a Private Fund or Managed Account's assets are invested in another Private Fund advised by SMC, the target Private Fund will waive any fees or other compensation payable to SMC or its affiliates in connection with such investment.

### **Investment Activities of SMC and its Personnel**

SMC's Compliance team monitors and reviews the employees' accounts for compliance with SMC's personal trading policies as detailed in the Code of Ethics. Employees must obtain written approval before acquiring for a personal account any securities as part of an initial public offering or a limited offering (i.e., an offering that is exempt from registration under the Securities Act pursuant to Section 4(2), Section 4(6), Rule 504, Rule 505, or Rule 506 thereunder).

As a result of employee investing in some of SMC's Private Funds, such funds are considered to be proprietary funds of SMC due to ownership percentages equaling or exceeding 25%. However, no preferential treatment is given to such funds due to the fact that they have an inherent conflict of interest. In addition, any such investments in such Private Funds are made in conformity with SMC's policies and procedures regarding investments by SMC's personnel. Potential conflicts may also arise due to the fact that advisory affiliates have investments in some Private Funds but not in others or have different levels of investments

in the various Private Funds, and because the Private Funds and Managed Accounts pay different levels of fees to SMC. These policies and procedures include comprehensive guidelines regarding the use of confidential information and personal trading. It is SMC's policy that personnel involved in investment decision-making must act in the best interests of clients before acting in their own best interests.

### **Additional Considerations**

From time to time, various potential and actual conflicts of interest arise from the overall advisory, investment, and other activities of SMC, its affiliates, and personnel (each an **"Advisory Affiliate"** and, collectively, the **"Advisory Affiliates"**). SMC has established policies and procedures to monitor and resolve conflicts and will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances. The Advisory Affiliates may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or fall within the investment guidelines of the Private Funds or the Managed Accounts. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Private Funds or Managed Accounts.

In addition, SMC may give advice or take action with respect to the investments of one or more Private Funds or Managed Accounts that may not be given or taken with respect to other Private Funds with similar investment programs, objectives, and strategies. Accordingly, Private Funds or Managed Accounts with similar strategies may not hold the same securities or instruments or achieve the same performance. SMC may also advise Private Funds or Managed Accounts with conflicting programs, objectives, or strategies. These activities may also adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Private Funds. Finally, SMC and its personnel may have conflicts in allocating their time and services among the Private Funds and Managed Accounts. SMC will devote as much time to each Private Fund or Managed Account as SMC deems appropriate to perform its duties in accordance with its management agreements.

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

#### **Use of Third-Party Investment Products**

Part of SMC's investment strategy for client accounts focuses on exposure to other third-party managed hedge funds and private equity funds. This creates a conflict of interest since SMC may have a preference or bias towards recommending certain third-party managed funds over others that are available for clients. In addition, SMC's own business interests may influence its decision, in the future, of whether to discontinue offering its clients

available third-party investment products versus recommending its own proprietary funds. SMC, in its sole discretion, may choose to discontinue using available third-party investment products for client portfolios, and may recommend its own proprietary investment products, to the extent deemed appropriate for the client's investment objective.

#### Limited Partner Advisory Committee

Generally, each Private Fund has the power to establish an advisory committee consisting of certain representatives of investors who are appointed by certain limited partners of the fund. A conflict of interest exists when some but not all investors are permitted to designate a member to the advisory committee. The advisory committee has the ability to resolve and approve conflicts of interests with respect to SMC or the general partner and the applicable Private Fund, which could be disadvantageous to the investors, including those investors who do not have the opportunity to designate a member to the advisory committee. Advisory committee members are also entitled to the benefit of certain indemnification and exculpation provisions under the relevant Limited Partnership Agreement.

#### Clawback Obligations

SMC or its associated general partner is typically required to return excess amounts of carried interest to a Private Fund via a clawback. A clawback obligation creates an incentive for the fund's general partner to defer disposition of one or more investments or delay the liquidation of a Private Fund if a more immediate disposition and/or liquidation would result in a realized loss to the Private Fund, or would otherwise result in a clawback situation for the general partner. Conversely, this clawback obligation creates an incentive for the general partner to accelerate disposition of one or more investments or the liquidation of a Private Fund if this would enable the general partner to receive a carried interest and avoid a clawback obligation even if delaying the disposition or liquidation (and holding the underlying assets for longer) would realize a greater return for the Private Fund and its underlying investors. Irrespective of these conflicts, SMC's main goal is to seek attractive risk-adjusted returns for investors over the long-term life of each Private Fund.

## **Item 12 – Brokerage Practices**

### **Spring Mountain Capital's Brokerage Practices**

#### *Best Execution*

SMC's overriding objective in effecting portfolio transactions is to obtain the best combination of price and execution. SMC seeks to effect each transaction at a price and commission that provides the most favorable total cost or proceeds reasonably attainable under the circumstances. SMC considers various factors when selecting a broker or dealer,

including, but not limited to, the nature of the portfolio transaction, the size of the transaction, the broker's reliability, the quality of the broker's execution services, the broker's financial condition, commission rates on agency transactions, the execution quality, clearing and settlement capabilities of the broker or dealer, the desired timing of the transactions, confidentiality, and the circumstances under which the general brokerage (execution-related) and research services are provided. Research and execution-related services are provided in the form of written reports, telephonic communications, data feeds, software (including software providing securities analysis functions), analyst earnings revisions, etc., and they contain information concerning securities markets, the economy, individual companies, pricing information and services, performance studies, and other information providing assistance in the performance of SMC's investment decision-making responsibilities.

Due to the relatively small size of SMC's Private Funds that invest in public securities, SMC has not been able to arrange for the creation of prime brokerage accounts that would facilitate trading on a best execution basis through multiple brokers. As such, these Private Funds have opened select brokerage trading accounts with counterparties for strategic and economic reasons. For example, a Private Fund may elect to open an account with a brokerage firm to access allocations to targeted investments. SMC Private Funds that more actively trade public securities will endeavor to open accounts that consider the following factors: the broker's reliability, the quality of the broker's execution services, the broker's financial condition, commission rates on agency transactions, the execution quality, clearing and settlement capabilities of the broker or dealer, the desired timing of the transactions, confidentiality, and the circumstances under which the general brokerage (execution-related) and research services are provided. Some transactions for these Private Funds are placed through Merrill Lynch, Pierce, Fenner & Smith Incorporated ("**Merrill Lynch**"), where Merrill Lynch acts as custodian and executing broker for transactions. It should be understood that by trading through Merrill Lynch, SMC does not negotiate commissions on a case-by-case basis or obtain volume discounts, and best execution is not always achieved.

Investors in SMC's Private Funds should also be aware that John L. Steffens' son, Drew C. Steffens, is the executing broker of record at Merrill Lynch and receives compensation related to his execution of SMC trades, which creates a conflict of interest.

#### *Trade Allocation*

SMC maintains a written allocation policy (the "**Allocation Policy**") in accordance with which it allocates investment opportunities among the Private Funds and Managed Accounts on a fair and equitable basis, to the extent practical and in accordance with such Private Funds' and Managed Accounts' applicable investment strategies, over a period of time. Investment opportunities will generally be allocated among those accounts for which

participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) whether the risk-return profile of the proposed investment is consistent with an account's objectives; (ii) the potential for the proposed investment to create an imbalance (e.g., a higher concentration of investments in a particular position, sector, or region than SMC considers optimal) in an account's portfolio; (iii) the liquidity requirements of an account; (iv) potentially adverse tax consequences; (v) regulatory restrictions that would or could limit an account's ability to participate in a proposed investment; (vi) the need to re-size risk in an account's portfolio; (vii) the preemptive rights of certain other accounts managed by SMC pursuant to the terms of their offering documents; (viii) which investment team within SMC originated the opportunity; and (ix) with respect to follow-on investments, the participation rights of the accounts that made the original investments. SMC may modify the Allocation Policy, and its procedures used to implement the Allocation Policy, at any time and from time to time without notice to, or the consent of, investors.

In particular, certain Private Funds may have priority with respect to investments in certain sectors or strategies by the terms of their offering documents. In addition, if an investment opportunity has limited capacity, priority may be given to the accounts that are managed by the investment team within SMC that originated the opportunity, which could have the effect of giving some accounts priority with respect to some opportunities and not receiving an allocation at all with respect to other opportunities. Furthermore, when a Private Fund or Managed Account is ramping up its investment or trading strategies, it may receive larger allocations of certain securities than other accounts in order to obtain its desired risk and portfolio size.

SMC has no obligation to purchase or sell an investment for, enter into a transaction on behalf of, or provide an investment opportunity to, a Private Fund or Managed Account solely because it purchases or sells the same investment for, enters into a transaction on behalf of, or provides an opportunity to, another Private Fund or Managed Account if, in its reasonable opinion, such investment, transaction or investment opportunity does not appear to be suitable, practicable or desirable for such Private Fund or Managed Account.

Individual issues associated with different types of investments and trades are as follows:

Equity, Domestic & International: The purchase and sale of equities are generally done for accounts with similar investment objectives at the same time. Partial or complete fills of orders are allocated evenly, on a percentage basis, based on the clients' original levels of participation in the order at the daily average price with each broker. Additional consideration is also given for the cash position, the incurrence of expensive minimum brokerage fees for minimal allocation actions, and any special client requests for cash balance usages. Partially filled orders necessitate the use of judgment to keep client

accounts balanced (i.e., to even out distribution so as not to disadvantage any one client versus another).

Fixed Income, Domestic & International: In the circumstance in which an order is only partially filled on the date of placement, all accounts designated generally shall be allocated an interest in the transaction *pro rata* based upon the amounts originally ordered for each account. Securities in a trade might not be allocated *pro rata* in the case of a partial fill in which such a small amount has been transacted that *pro rata* allocation among accounts would result, in the trader's judgment, in non-meaningful allocation for particular accounts. In such cases, the trader will use his best efforts to allocate such de minimis amounts to the various accounts on a rotational basis.

American Depositary Receipt – ADR: American Depositary Receipts (ADRs), also known as American depositary shares, are receipts for the shares of a foreign-based corporation's securities held in the vault of a U.S. bank and that entitle the shareholder to all dividends and capital gains of such security. Instead of buying shares of a foreign-based company's security in overseas markets, Americans can buy shares in the United States in the form of an ADR. ADRs are available for hundreds of stocks. ADRs make trading foreign securities in the U.S. easier by eliminating currency exchange, legal obstacles, foreign ownership transfers, and the need to trade on a foreign exchange. While an ADR removes direct foreign currency ownership, the value of the ADR share is still impacted by changes in the U.S. dollar to foreign currency exchange rate. Certain of the Private Funds may trade ADRs, which again will be allocated to accounts in an equitable manner over time.

International Equity Transaction Costs: International equity transaction costs are calculated by basis points instead of the standard U.S. cents per share and, as such, the transaction costs and cents per share cost to trade in the international exchanges/markets could be greater than the competitive transaction costs available in the U.S. exchanges/markets.

Trade Errors: In connection with Private Funds and Managed Accounts, SMC may experience errors with respect to trades made on behalf of clients. Errors can occur either in the investment decision-making process or in the trading process. Errors in both the investment decision-making process and trading are referred to as "trade errors." SMC endeavors to detect trade errors prior to settlement and correct them in an expeditious manner.

Soft Dollars: SMC does not have, and does not anticipate having, any third-party soft dollar arrangements.

IPO Participation: The Private Funds managed by SMC may participate in "New Issues" as defined under Rule 5130 of the Financial Industry Regulatory Authority and allocate

those proceeds related to “New Issues” to eligible investors. Managed Accounts that are eligible for “New Issues” as defined by Rule 5130 can fully participate indirectly in investments by underlying funds.

### **SMC Fixed Income Management’s Brokerage Practices**

For its fixed income management services, SMC FIM selects broker-dealers to effect transactions on the basis of best execution under the circumstances. “Best execution” does not necessarily mean effecting transactions at the lowest possible commission rate, transaction cost or price, but could include a number of other factors mentioned herein.

SMC FIM seeks to effect transactions at a price, commission, and transaction cost (e.g., mark-up or mark-down) that provides the most favorable total cost or proceeds reasonably attainable under the circumstances. With the exception of portfolio consulting clients (i.e., AAM) where SMC FIM does not execute client transactions, SMC FIM has discretion to determine without obtaining prior consent from clients the broker or dealer to execute transactions and the commission rates or commission equivalents (i.e., mark-ups or mark-downs) charged for trading.

Transactions for client accounts participating in wrap fee programs are arranged only through the sponsoring broker-dealer and commission charges, custodial and other fees are included within the total wrap fee. Should SMC FIM arrange transactions in wrap fee accounts through other broker-dealers, clients would generally be subject to additional commission charges or step-out fees in addition to the wrap fee charged for participating in the program. Additionally, various operational issues often would preclude SMC FIM from efficiently settling transactions arranged with brokers other than the sponsoring broker. By arranging transactions in this manner, clients within such wrap fee programs may receive execution prices higher or lower than other SMC FIM clients.

#### *Broker Selection*

In selecting broker-dealers to effect clients’ transactions, SMC FIM seeks to obtain best execution under the circumstances, taking into consideration, among other factors, the broker-dealers’:

- ability to effect prompt and reliable executions at favorable prices;
- operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution;
- financial strength;
- integrity and stability;



- commitment of capital to facilitate transactions;
- quality, comprehensiveness, and frequency of available research and related services considered to be of value; and
- competitiveness of commission rates and dealer spreads in comparison with other broker-dealers.

Clients' transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions (and mark-ups or mark-downs) than would be the case for more routine services.

### *Cross-Trades*

From time-to-time, SMC FIM may effect a purchase of a security for one or more clients at the same time as a sale of the same security for another client. Such transactions may be effected to rebalance the positions held in clients' portfolios in order to achieve more uniform results across clients, to take into account clients' cash flows, or to comply with investment guidelines and restrictions. Such transactions, at SMC FIM's discretion, will generally be effected between the bid/ask spread, at the closing price for the security, or on some other fair and reasonable basis.

### *Research and Brokerage Services*

SMC FIM does not obtain third-party research services or products with clients' commissions ("**Soft Dollars**").

As is customary in the industry, broker-dealers may provide their own proprietary research to investment advisers, including SMC FIM. Generally, trading mark-ups and mark-downs paid to these broker-dealers to execute transactions include the cost to receive their proprietary research and other brokerage services.

While SMC FIM uses proprietary research to benefit all clients in its investment decision-making or trade execution process, clients whose transactions are used to pay for proprietary research and brokerage services in a particular instance will not necessarily receive the direct benefit of this research or brokerage services, while clients who do not pay for these services will receive the benefit. SMC FIM believes that proprietary research and brokerage services assist it in its investment decision-making and trade execution processes for the benefit of all clients without regard to whether the client who provides the transactions receives the direct benefit (as that client may receive the benefit when another client's transactions are used to pay for these services). SMC FIM is not required to weigh any of these factors equally. Research services received are in addition to and not in lieu of

services required to be performed by SMC FIM, and SMC FIM's management fees are not reduced as a consequence of the receipt of such supplemental research information.

Proprietary research services obtained with clients' transactions include written information and analyses concerning specific securities, municipal obligors, or sectors; market, financial, and economic studies and forecasts; statistics and pricing or appraisal services; and access to research analysts and company executives, along with hardware, software, data bases, and other technical and telecommunication services, lines, and equipment utilized in the investment management process.

SMC FIM's Brokerage Committee, consisting of the Company's portfolio managers, traders, and Chief Compliance Officer, reviews and approves, among others, broker-dealers through whom transactions are executed and information with respect to the trading activity placed with these brokers.

#### *Aggregation and Allocation*

SMC FIM security transactions are generally aggregated when possible and allocated among clients, taking into consideration a number of factors including, but not limited to, the available cash, portfolio structure, tax, or regulatory considerations and different investment programs that focus on particular strategies, timing, or sectors.

SMC FIM, in its discretion, will aggregate orders in the same security for clients transacting in that security and will generally allocate the securities or proceeds arising as a result of the transactions (and the related transaction expenses) *pro rata* on an average price basis among the clients in the order.

SMC FIM believes that by aggregating orders, transaction costs will be reduced. However, in certain instances, average pricing may result in higher or lower total net execution price than would otherwise be obtainable by effecting client transactions separately. SMC FIM believes that aggregating orders contributes to best execution.

#### *Payment for Client Referrals*

From time to time, broker-dealers and their employees may refer potential clients to SMC FIM. It is SMC FIM's policy not to direct transactions and commissions to these broker-dealers as compensation for such referrals. However, SMC FIM, in its discretion, may effect transactions through these broker-dealers, provided they are able to provide best execution under the circumstances.

See Item 14 below for additional information with respect to payment for client referrals.

### *Directed Brokerage*

SMC FIM does not accept clients' instructions to effect some or all of their transactions with certain broker-dealers.

### *Trade Errors*

From time to time, a trade error may occur. For example, trade errors may happen as a result of effecting the incorrect amount of securities (e.g., 10,000 bonds were purchased when the intention was to purchase 1,000 bonds), transactions were effected in the wrong client account, the order was to buy bonds but bonds were sold, and for other reasons. When trade errors occur, SMC's policy is to correct the error promptly. In the event that SMC FIM caused the error, SMC FIM will make the client whole for the loss unless the equities of the situation will cause an unjust enrichment for the client. If the client caused the error (e.g., the client advised SMC FIM that a certain amount of funds would be wired to the account on a certain day, but a substantially smaller amount was wired or the funds were not wired and SMC FIM acted upon the client's statement), the client will bear the error. If a third party caused the error (e.g., SMC FIM properly gave trade instructions to a broker-dealer but the broker-dealer executed the order incorrectly), SMC FIM will take steps to collect from the third party the amount necessary to make the client whole; however, there is no guarantee that SMC FIM will be successful in recuperating such funds, in which case the client will bear the loss.

### *Principal and Agency Cross-Transactions*

"Principal transactions" are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client.

An "agency cross transaction" is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

SMC FIM does not effect transactions as principal and is neither registered as, nor is affiliated with, a broker-dealer.

## **Item 13 – Review of Accounts**

### **Reviews**

#### *SMC*

SMC generally performs various daily, weekly, monthly, quarterly and annual reviews of the portfolios of its Private Funds and Managed Accounts. The review process includes an ongoing consideration of major market and economic developments and their effects on the securities held in the clients' portfolios. In addition, the review process involves a review and analysis of the performance of the individual positions held in each portfolio, the performance of the entire portfolio of securities held generally, and the risks inherent in the individual positions and portfolio as a whole. The portfolio managers (Managing Directors) responsible for each Private Fund and Managed Account lead these reviews.

#### *SMC FIM*

SMC FIM's Chief Investment Officer (CIO) monitors the clients' portfolios to ensure consistency with SMC FIM's investment processes and conformity with the clients' objectives and guidelines. Positions, potential investments, cash, and other portfolio parameters are reviewed daily. In addition, the CIO and portfolio managers meet with SMC FIM's research analyst to review positions in detail and to consider investment opportunities.

### **Reports**

#### *SMC*

Each of the Private Funds prepare and mail to each client a financial report audited by such Private Fund's independent auditors as soon as reasonably practicable after the end of each fiscal year. Clients also receive unaudited performance reports at least quarterly. With respect to each of the Domestic Funds, each client receives tax information that is necessary for the completion of such client's U.S. tax returns.

Performance results for Managed Accounts are calculated on at least a quarterly basis and reported to the client as soon as reasonably practicable.

#### *SMC FIM*

SMC FIM provides clients with monthly and/or quarterly account reports and/or statements that include portfolio holdings, transactions, and performance information upon request.

Investors in UITs sponsored by AAM receive the respective funds' reports from these funds.

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

SMC from time to time utilizes third-party placement agents that receive compensation that will be borne either by SMC or by the investor for referring investors to the Private Fund or other investment vehicles managed by SMC.

In the event that SMC were to pay referral fees to unaffiliated parties, such fees would be paid in accordance with the requirements of Rule 206(4)-1 of the Investment Advisers Act of 1940 and the rules set forth by the applicable state regulator. SMC would execute a written agreement between itself and the solicitor and/or the referring party. Clients referred through such arrangements will receive from the solicitor a copy of SMC's Form ADV Part 2 and a copy of the disclosure document describing the terms and conditions of the solicitation arrangement, including the compensation paid to the solicitor. Generally, the compensation paid to the solicitor from SMC would be based upon the SMC revenue (fees) generated by the client accounts referred by the referring solicitor.

SMC has entered into agreements on behalf its Private Funds with certain broker-dealers that act as custodians on behalf of such Private Funds. From time to time, SMC's personnel may speak at conferences and programs for potential investors interested in investing in hedge funds that are sponsored by those prime brokers. These conferences and programs are a means by which SMC can be introduced to potential investors in the Private Funds. Currently, neither SMC nor the Private Funds compensate prime brokers for organizing such "capital introduction" events or for any investments ultimately made by prospective investors attending such events (although either may do so in the future). While such events and other services provided by a prime broker may influence SMC in deciding whether to use such prime broker in connection with brokerage, financing, and other activities of the Private Funds, SMC will not commit to allocating a particular amount of brokerage to a broker-dealer in any such situation.

SMC FIM utilizes solicitors for the referral of prospective clients. Typically, the arrangements provide for the remittance by SMC FIM of a certain percentage of annual advisory fees to the solicitor. Each prospective client is provided a copy of a referral disclosure document prior to or at the time of entering into any advisory contract with SMC FIM. SMC FIM will ensure that any such solicitation relationships meet the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940.

## **Item 15 – Custody**

SMC does not serve as the qualified custodian of any of the assets owned by the Private Funds. SMC is deemed to have custody of the assets of each Private Fund. SMC satisfies the applicable regulatory requirements related to custody by, among other things, ensuring that

each Private Fund is subject to an annual audit by an independent, PCAOB-registered and examined accounting firm and that such audited financial statements are provided to the investors in each Private Fund within 120 days (or 180 days in the case of funds of funds) of the applicable Private Fund's fiscal year end.

Separate account clients of SMC should receive at least quarterly statements from the broker-dealer, bank, or other qualified custodian that holds and maintains clients' investment assets. SMC urges clients to carefully review such statements and compare such official custodial records to the account statements that we provide to them. SMC statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

As noted in Item 4, SMC and SMC FIM have full discretionary authority to manage the Private Funds and Managed Accounts (and a small number of accounts that they manage on a non-discretionary basis), including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Where SMC or SMC FIM has retained a Sub-Manager, the Sub-Manager will typically manage any such investments on a discretionary basis. SMC's authority is limited by its own internal policies and procedures and the investment guidelines of each Private Fund and Managed Account.

## **Item 17 – Voting Client Securities**

The SEC has adopted Rule 206(4)-6 under the Advisers Act. Under this rule, a registered investment adviser that exercises voting authority over client securities is required to implement proxy voting policies and describe those policies to its clients. Although some matters voted on by SMC might not be considered conventional "proxy votes" for issuers of listed equity securities, SMC applies the basic requirements of Rule 206(4)-6 to its votes nevertheless.

To the extent SMC's Private Funds and invest in underlying funds, SMC has authority to vote on matters relating to, or give approval/consent to amendments proposed by, such underlying funds. However, SMC does not have proxy voting authority with respect to issuers of securities in which the underlying funds invest.

SMC also provides investment advisory services to Managed Accounts. With respect to its Managed Account clients, SMC assumes responsibility for the voting of proxies and other corporate actions. However, such Managed Account clients are predominantly invested

(outside of the client mandate to invest in underlying portfolio managers) in fixed income securities, and accordingly SMC generally is not solicited to vote proxies for such fixed income securities on behalf of these clients. Where Managed Accounts contain equity securities held at the clients' direction and where SMC is required to vote (or provide instruction on how to vote) on such equities, SMC utilizes policies and procedures that are reasonably designed to ensure that proxies for the Managed Accounts are voted in the best interests of its clients.

When SMC receives voting ballots on behalf of its Managed Accounts' portfolio holdings, each vote will be cast, if at all, on a case-by-case basis, in accordance with SMC's Proxy Policies and Procedures, taking into consideration SMC's obligations to its clients and all other relevant facts and circumstances.

With respect to SMC's private equity funds where SMC is in a position to vote proxies, SMC has overall responsibility for making all proxy voting decisions in accordance with SMC's Proxy Policies and Procedures.

Please note that although the proxy voting process is well established in the United States, voting the proxies of foreign companies involves a number of logistical challenges that could have a detrimental effect on SMC's ability to vote such proxies. The logistical challenges include language barriers, untimely or inadequate notice of shareholder meetings, restrictions on a foreigner's ability to exercise votes, and requirements to vote in person. In addition, the security may be in a share blocking market. "Share blocking" markets are markets in which proxy voters have their securities blocked from trading during the period of the annual meeting. The blocking period typically lasts anywhere from a few days to two weeks. During such period, any portfolio holdings in these markets cannot be sold without a formal recall. The recall process can take time, and in some cases cannot be accomplished at all. Such proxies are voted on a best-efforts basis given the above logistical and share-blocking challenges.

Where a proxy proposal raises a material conflict of interest between SMC's interests and an interest of any client, SMC will resolve such conflict by (1) if the proposal is addressed by SMC's specific proxy policies, voting in accordance with such policies, or (2) if SMC believes it is in the best interests of the client to depart from its policies: (a) SMC will vote such proxy as it determines is in the best interest of the relevant client (even though it may be against the interest of SMC) and memorialize the rationale for such vote, or (b) SMC will vote in a way that may also benefit, or be perceived to benefit, SMC's own interest and memorialize the rationale for such vote, provided that SMC: (i) delegates the voting decision for such proxy proposal to an independent third party; (ii) delegates the voting decision to an independent committee of representatives of the relevant client, as applicable; or (iii)

informs the client of the conflict of interest and obtains majority consent to vote the proxy as recommended by SMC.

With respect to SMC FIM's fixed income investment management services, there are few instances where proxies are required to be voted. In these instances, SMC FIM will have the authority to vote on matters relating to, or give approval/consent to, amendments proposed by a proxy vote.

SMC FIM's policy is to vote proxies in the best interest of its clients with a view toward maximizing value for clients. However, due to the nature of the fixed income investments in which SMC FIM invests clients' assets, proxy voting occurs very infrequently and typically only as a result of a proposed bond restructuring that SMC FIM is requested to approve by the issuer. As such, SMC FIM endeavors to vote proxies in the manner that it determines in good faith will be the most likely to cause the investments to increase the most or decline the least in value. Additional information about the SMC FIM Proxy Policy and related practices and how a client's proxies were voted is available upon written request to SMC FIM.

If you would like to receive detailed Proxy Policies and Procedures or if you have any questions concerning our policy, please contact the Compliance Department at or write to the address referenced in Item 1.

#### Class Action Lawsuits

From time to time, SMC receives notices regarding class action lawsuits involving securities that are or were held by the Private Funds and client accounts. As a matter of policy, SMC refrains from serving as the lead plaintiff in class action matters and also refrains from submitting proofs of claim where SMC believes that either the recovery amounts are likely to be negligible or SMC cannot be assured of confidential treatment of the data submitted in connection with the proof of claim. As a result, SMC does not participate in class action lawsuits in most cases.

Clients should note that SMC FIM will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held or previously were held in the clients account(s), including, but not limited to, the filing of proofs of claim in class action settlements. If directed by the client, SMC FIM will transmit copies of class action notices to the client or a third party. Upon such direction, SMC FIM will make commercially reasonable efforts to forward such notices in a timely manner.



## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. SMC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of any bankruptcy proceeding.