



## Item 1 – Cover Page

### **CAPSTONE INVESTMENT ADVISORS, LLC PART 2A OF FORM ADV: FIRM BROCHURE**

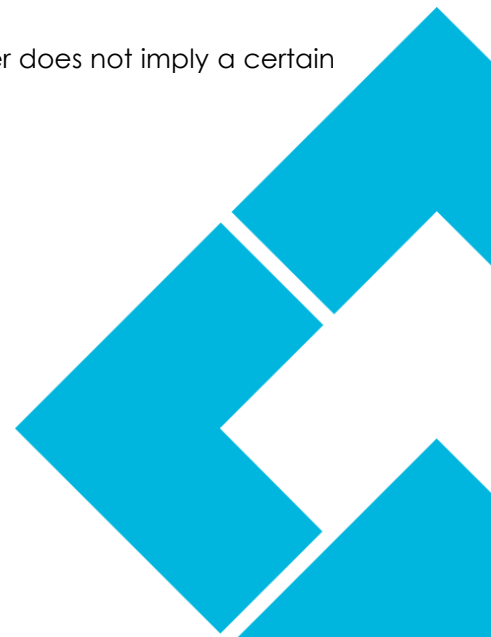
**MARCH 31, 2023**

7 World Trade Center  
250 Greenwich Street, 30<sup>th</sup> Floor  
New York, NY 10007

This Firm Brochure (the “Brochure”) provides information about the qualifications and business practices of Capstone Investment Advisors, LLC (“Capstone”). If you have any questions about the contents of this Brochure, please contact Capstone at (212) 232-1420 or [compliance@capstoneco.com](mailto:compliance@capstoneco.com).

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Capstone is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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





## Item 2 – Material Changes

Capstone Investment Advisors, LLC (“Capstone”) is required to identify and discuss any material changes made to the Brochure since the last Brochure update.

Summarized below are material changes made to this Brochure since Capstone's last annual Form ADV filing on March 31, 2022. Please be aware that other non-material changes have also been included in this Brochure. Capstone recommends that you read this Brochure in its entirety.

- **Item 5.** Additional information has been included in the Brochure regarding Capstone fees and expenses.
- **Item 8.** Information related to the description of risks related to Capstone's investment strategies, certain investment instruments and market conditions generally has been revised and expanded.



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## Item 4 – Advisory Business

Capstone is a Delaware limited liability company founded by Paul Britton on March 8, 2007. Capstone's principal owner is CIA Associates NY LLC, which is majority owned and wholly controlled by Mr. Britton.

Capstone, Capstone Investment Advisors (UK), LLP ("Capstone UK"), Capstone Investment Advisors (HK) Limited ("Capstone HK") and Capstone Investment Advisors (Netherlands), B.V. ("Capstone Netherlands" and, collectively with Capstone, Capstone UK, Capstone HK and Capstone Netherlands, "Capstone") trade globally across multiple asset classes including equities, fixed income, FX, and commodities. Capstone is a multi-strategy investment manager that focuses on relative value trading with a volatility bias. Capstone has a quantitative approach to trading and its business is model driven with a qualitative overlay. Through its two platforms, Capstone Global Master ("CGM") and Capstone Solutions ("Solutions"), Capstone seeks to capitalize on perceived inefficiencies in the pricing of volatility in target derivative markets.

CGM is Capstone's multi-strategy flagship fund, which trades derivatives across asset classes and regions, focused on volatility and relative value strategies. CGM seeks to generate uncorrelated returns, maintaining a balance between "Risk-On" and "Risk-Off" strategies. The strategy, or specific components thereof, may in the future be offered through managed accounts or single investor vehicles. Capstone UK, Capstone HK and Capstone Netherlands each serve as a sub-adviser to CGM.

Through its Solutions platform, Capstone manages customized single investor vehicles, commingled fund structures and separately managed accounts. These Solutions entities and accounts are generally independent from the CGM platform and are typically offered through customized mandates tailored to investor needs across the volatility and derivatives spectrum. The Solutions strategies generally include equity replacement, opportunistic investing, tail-risk protection, dispersion and risk lay off.

As of February 28, 2023, Capstone had approximately \$8,901,917,164 net assets under management on a discretionary basis and \$126,419,229 net assets under management on a non-discretionary basis.

In carrying out its strategies, Capstone serves as the investment manager with discretionary trading authority to investment vehicles that are offered to investors on a private placement basis (each, a "Capstone Fund"). Investment advice is provided directly to the Capstone Funds according to each Capstone Fund's particular investment objectives and not individually to the investors in a Capstone Fund. Capstone also manages separately managed accounts ("SMAs") on a discretionary basis. Where relevant, Capstone Funds and SMAs are collectively referred to as "Accounts" throughout this Brochure.

Capstone Fund Services, LLC ("CFS") and Capstone Fund Services II, LLC ("CFS II") are Delaware limited liability companies affiliated with Capstone. CFS serves as the general partner of the Capstone Global (US), LP fund ("CGUS") and is the manager of Capstone Global Intermediate (Cayman) Limited, an exempted company incorporated under the laws of the Cayman Islands ("CGIL"), which invests substantially all of its assets in CGM. CFS II serves as the general partner of certain Capstone Funds on the Solutions platform.

*This Brochure includes information about Capstone and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Capstone Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the "Securities Act") and other exemptions of similar import under U.S.*



*state laws and the laws of other jurisdictions where any offering may be made. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Capstone Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum or similar disclosure document.*



## Item 5 – Fees and Compensation

Capstone and / or its affiliates may receive compensation in the form of management fees and an allocation of profits ("Performance Compensation") for investment advisory services provided to the Accounts. As described more fully below, fees are generally deducted directly from the applicable Capstone Fund's account and invoiced to the applicable SMA on a monthly basis. Certain Capstone Fund investors may pay more or less than other Capstone Fund investors for the same management services, depending, for example, on when a Capstone Fund investor subscribes or the total size of its investment with Capstone. Capstone may agree to reduce the management fees or Performance Compensation paid by certain investors in any of the Capstone Funds through side letters or other arrangements. Capstone generally waives management fees and Performance Compensation for Capstone Fund investors that are principals, current and former employees and affiliates of Capstone and such employee's or affiliate's family members, trusts and other entities.

Each of Capstone UK, Capstone Netherlands, Capstone HK and Capstone Investment Advisors (AUS) PTY LTD ("Capstone AUS") are compensated by Capstone in respect of services provided to each applicable Capstone Fund, and Capstone Fund investors are not subject to additional management fees or Performance Compensation related to services provided by these affiliates.

### **CAPSTONE GLOBAL MASTER**

For its investment management services to CGM, Capstone is generally entitled to receive a monthly management fee, payable in advance, at an annual rate of up to 2.00% of the net asset value ("NAV") of each investor's capital account balance or series of shares as of the beginning of each month.

If an investor enters CGM on a day other than the beginning of a month or leaves on a day other than the last day of a month, the management fee for such month will be prorated.

CFS is generally entitled to receive Performance Compensation on a quarterly or annual basis of up to 25% of the net appreciation in NAV of CGM, subject to an investor's high water mark.

Investors in certain series of CGUS and CGOL may also be assessed a netting risk cost, subject to a netting risk cost cap. Netting risk cost is accrued on a monthly basis, paid as an annual fee, and represents a calculated conditional allocation of a portion of the aggregate costs of salary and benefits payable by Capstone to an employee or employees that trade a portfolio for an investment team for any of the CGM investment strategies. Capstone will bear the netting risk cost for certain series of CGUS and CGOL. Further details on netting risk cost can be found in the offering documents for each of CGUS and CGOL.

### **OTHER SOLUTIONS ACCOUNTS**

Because Capstone Funds or SMAs on the Solutions platform are customized mandates, Capstone does not have a standardized fee schedule. Generally, Capstone receives a monthly management fee from each Capstone Fund or SMA on the Solutions platform, which may be charged in advance or in arrears as agreed with the relevant client. The management fee for a Fund or SMA on the Solutions platform is generally either a flat annual minimum fee or calculated as a percentage of up to 2.00% (per annum) of any one or more of the following: (i) assets under management; (ii) notional asset value replaced; (iii) risk adjusted exposure; or (iv) notional value of investment exposure. Single investor Capstone Funds on the Solutions platform may have multiple different investment accounts, each employing a different investment strategy. As a result, such single investor Capstone Funds may be subject to different fee structures. Capstone's fees for single investor Capstone Funds and SMAs on the Solutions platform are negotiated on a per-client basis.



Management fees paid in advance will be prorated for investors invested in a Fund or SMA on the Solutions platform for less than a full month.

In addition to the management fees, certain Capstone Funds on the Solutions platform may also be charged Performance Compensation of up to 20% of the net appreciation in NAV of such Capstone Fund, subject to an individual investor's high water mark.

#### **OTHER FEES OR EXPENSES**

Beginning April 1, 2023, Capstone Funds on the Solutions platform may be charged a platform fee for expenses relating to the retention of certain Solutions platform personnel that support the Capstone Fund's administration and operations (including, without limitation, finance, legal, operations, portfolio finance, research, risk, structuring, technology and trading). This platform fee is 0.25% per annum of the NAV of each investor's capital account balance or series of shares.

In addition to management fees, Performance Compensation and other fees, the Capstone Funds also bear expenses incurred directly or indirectly by each Capstone Fund in connection with such Capstone Fund's investments, operations and administration. These expenses include such Capstone Fund's pro-rata share of expenses incurred by Capstone and its affiliates for goods and services that benefit the Capstone Fund or are related to the Capstone Fund's investments, operation and administration, in each case as determined by Capstone.

Expenses include (i) clearing and executing broker fees; (ii) data feed and market data costs (and related software and hardware expenses such as Bloomberg); (iii) trading, research and risk management costs and related software and hardware expenses, such as those that relate to the Capstone Trading Platform and expenses for external and internal connectivity and telecommunications, storage and server hardware and services; (iv) exchange membership expenses; (v) interest expenses; (vi) stock loan expenses, (vii) regulatory and self-regulatory fees; (viii) other transactional charges; (ix) expenses relating to cash management; (x) expenses relating to a Capstone Fund's ongoing offering of interests or shares, including the cost of producing and distributing offering memoranda and other marketing materials, expenses paid to third party vendors and regulatory filing fees of the Funds or Capstone applicable in certain jurisdictions, and costs associated with negotiating any "side letter" or other contract in connection with the admission of shareholders or limited partners to the Funds; (xi) legal and compliance services provided by third-party consultants to the Capstone Funds or to Capstone, or their officers (including any anti-money laundering officer), independent directors, audit, accounting, tax, insurance premiums and custodial fees and expenses, including fees and expenses related to Capstone's compliance with its reporting requirements with respect to the Capstone Funds (e.g., transaction reporting (including MiFID II) and similar filings (e.g., Form PF, Form CPO-PQR, or any similar form filed, or registration made, with any non-US governmental entity on behalf of any Capstone Fund or Capstone, any filings or registrations required to be made under the Alternative Investment Fund Managers Directive of the European Union) or to any multinational compliance regime, any filings required under U.S. securities Laws, such as Section 13 or 16 of the U.S. Securities Exchange Act of 1934 (the "Exchange Act")), any filings required to be made pursuant to the lobbyist registration laws of any jurisdiction in which the interests in the Capstone Funds are marketed and any other regulatory, legal or compliance filings, registrations or licenses which are required to be made or obtained, as applicable (either currently or in the future); (xii) fees and expenses of each Capstone Fund's administrator and the costs of printing and distributing periodic and annual reports and statements; (xiii) fees and expenses of software consultants engaged by Capstone for the benefit of the Capstone Funds; (xiv) expenses in connection with the winding down and dissolution of any Capstone Fund; (xv) indemnification



expenses of a Capstone Fund; and (xvi) extraordinary expenses (including extraordinary legal expenses) of any Capstone Fund. For the avoidance of doubt, Capstone, rather than the Capstone Funds, will bear expenses relating to employee travel.

Capstone or its affiliates may initially incur one or more expenses on behalf of a Capstone Fund. In consideration of incurring such expenses, Capstone or its affiliates may be fully reimbursed or otherwise fully compensated by such Capstone Fund for such expenses. The time and manner of such reimbursement or compensation shall be determined in a commercially reasonable manner by Capstone in accordance with Capstone's Expense Allocation Policy. Any reimbursement of expenses to Capstone or its affiliates will be in addition to the management fee, netting risk cost and Performance Compensation, as applicable.

Technology is a deeply embedded quantitative component of each Account's trading process. The strategies implemented by Capstone entail quantitative investment processes with qualitative overlays. Specifically, the technology development team creates internal modeling tools, automated trading execution platforms, automated hedging platforms and other similar tools related to maximizing the trading efficiency of the Accounts. Therefore, technology-related costs are expected to be substantial.

Capstone has adopted an Expense Allocation Policy, pursuant to which Capstone determines whether expenses are borne by Capstone or the Accounts and how the expenses are allocated. To the extent that any expense is incurred for more than one Account, Capstone will allocate such expenses among such Accounts on a basis deemed equitable by Capstone, in each case in accordance with the Expense Allocation Policy. Certain expenses may be billed directly to a particular Account whereas other expenses may be attributable to more than one Account.

Further details on Capstone's Expense Allocation Policy are disclosed in the offering documents for the relevant Capstone Fund.

With respect to certain clients, in lieu of bearing certain technology-related overhead expenses, which may include technology-related infrastructure expenses that support a Capstone Fund's internal and external connectivity (including, without limitation, voice, internet connections and software connectivity providers), Capstone may charge a flat annual administrative fee to pay for such overhead expenses.





## Item 6 – Performance Based Compensation and Side-by-Side Management

As discussed in Item 5 – Fees and Compensation, Capstone provides investment advisory services to Accounts that charge Performance Compensation ("Performance Compensation Accounts") side by side with Accounts that do not have such compensation characteristics ("Non-Performance Compensation Accounts"). In some cases, investment professionals may have an incentive to favor Performance Compensation Accounts over Non-Performance Compensation Accounts based on the potential for greater compensation for Performance Compensation Accounts. Similarly, certain Accounts may be subject to fee terms that are more beneficial to Capstone and its affiliates than those applicable to other Accounts. The exposure of Capstone's principals and employees to a particular Account may also be more significant than their exposure to another Account.

Capstone is conscious of these potential conflicts and is committed to allocating investment opportunities on a fair and equitable basis. Capstone has established policies and procedures to address trade allocation, as further described in Item 12 – Brokerage Practices. Additionally, Capstone has established a Conflicts of Interest Committee that meets quarterly or on an ad-hoc basis to review identified actual or potential conflicts of interest, assess the adequacy of policies and procedures and implement additional controls.



## Item 7 – Types of Clients

As described in Item 4 – Advisory Business, Capstone generally provides investment advice to private investment vehicles (including the Capstone Funds), customized single investor vehicles, commingled fund structures and separately managed accounts. Investment advice is provided directly to the Capstone Funds and not individually to a Capstone Fund's investors. Investors in the Capstone Funds and SMA clients generally include institutions (e.g., pension plans, endowments, charitable organizations, foundations, sovereign wealth funds and similar), funds-of-funds, and high net worth individuals and family offices (including trusts related to the same). Any minimum initial and additional subscription requirements are disclosed in the offering documents for the relevant Capstone Fund. Investors will be required to make certain representations when subscribing to a Capstone Fund through the execution of a subscription agreement and other documents. Interests and shares in the Capstone Funds are not registered under the Securities Act (or any similar law), and such Capstone Funds are not registered under the Investment Company Act of 1940, as amended. Accordingly, interests and shares in the Capstone Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or offshore.



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

### METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

Capstone believes that the development of a successful, diversified portfolio of investment strategies is an ongoing and dynamic process. Capstone has complete flexibility in selecting the assets traded and the investment strategies implemented by the Capstone Funds, provided that a Capstone Fund's assets are traded and strategies pursued in a manner consistent with the investment objectives and guidelines detailed in such Capstone Fund's offering documents. The investment strategies, pods, approaches, and techniques pursued by the Capstone Funds may evolve over time due to, among other things, the prevailing economic environment, market developments and trends, new regulatory constraints, the emergence of new or enhanced investment products, changing industry practice and technological innovation.

This list of strategies detailed in this Item 8 is not a complete list of investment strategies that Capstone may explore or implement. In addition, the investment strategies employed by Capstone may be modified from time to time.

An investment in the Capstone Funds is highly speculative and involves significant risks. There can be no assurance that a Capstone Fund will be able to realize its objectives or avoid substantial or total losses. In fact, many of the techniques used by Capstone, such as leverage and short selling, can exacerbate the adverse impact of particular transactions or conditions on a Capstone Fund's investment program. Investors in the Capstone Funds should be prepared to lose all or substantially all of the capital invested in the Capstone Funds.

### CGM

Capstone serves as investment manager to CGM, whose primary objective is to achieve long term capital appreciation that is uncorrelated with global equity markets. CGM seeks to achieve its investment objective primarily through a combination of "Risk-On" and "Risk-Off" strategies, as well as other investment strategies that Capstone believes are complementary to its overall portfolio construction. CGM is a multi-strategy fund trading derivatives across asset classes, such as equity, fixed income, commodities, convertible bond, and foreign exchange markets and regions, such as the United States, Europe and Asia, with a focus on volatility and relative value. The overall approach is heavily model-driven with a qualitative overlay. CGM may also pursue strategies outside of such markets and its focus may move to any such other markets away from the markets listed above. Capstone may add additional related strategies or modify existing strategies, as it sees fit.

CGM approaches the goal of long-term, uncorrelated capital appreciation through the use of multiple relative value, volatility arbitrage and complementary, but related, strategies. This range of strategies includes relative value and volatility-based trading in equities, fixed income (long end and short end of the curve), FX and convertible bonds, as well as in certain strategies that are not options trading-related, such as index and merger arbitrage. Capstone may add additional related strategies or modify existing strategies, in each case as it may determine and without notice to, or the consent of, any CGM investor. The flexibility to add or modify strategies is necessary to Capstone's investment objectives.

Capstone believes that to benefit fully from perceived inefficiencies that exist in the markets in which CGM trades, it is important to practice a diverse mix of strategies that can capitalize on such inefficiencies opportunistically and in a manner, that each may act as a natural hedge to others in the portfolio. CGM's use of various "Risk-On" and "Risk-Off" strategies is intended to create diversification across different market environments. CGM is designed to be agnostic to the overall level of market volatility by maintaining a balanced allocation to "Risk-On" and "Risk-Off" strategies. The strategies are expected to have varying degrees of correlation (or negative



correlation) to each other, which is intended to enable CGM to produce more consistent returns regardless of market conditions. Generally, each investment undertaken by Capstone on behalf of CGM, irrespective of the strategy pursuant to which it is made, is intended to be additive and complementary, and not solely to add diversification to the portfolio.

By “Risk-On”, Capstone means strategies that are employed during more benign, settled market environments, characterized by normal volumes and liquidity, lower than average volatility and correlation, more ample deal flow and an upward-sloping term structure of volatility.

“Risk-Off” means the opposite: markets characterized generally by more tentative, fearful or panicky investor sentiment, higher than average volatility and correlation, scarcer liquidity, higher cash positions, lack of deal flow and a flat or downward sloping term structure of volatility.

The classifications of any strategy as either “Risk-On” or “Risk-Off” are reflective of Capstone’s expectations over the long term. Most CGM strategies could be classified as either “Risk-On” or “Risk-Off” dependent on market conditions. Capstone does not generally seek to anticipate whether a market environment on any day or during any period is a “Risk-On” or “Risk-Off” market environment. Rather, Capstone intends to diversify its strategies and investments at all times so that it remains poised to take advantage of opportunities regardless of market environment and to use risk management to execute stop-losses on out of favor strategies. However, as the markets change, CGM’s balance of “Risk-On” or “Risk-Off” will fluctuate.

## **SOLUTIONS ACCOUNTS**

Capstone serves as investment manager to the Capstone Funds or SMAs on the Solutions platform. As a primary objective, such Capstone Funds or SMAs provide tail-risk protection, equity replacement, opportunistic investing, dispersion or risk layoff generally with respect to global-equity, fixed-income, commodities and volatility markets, or that provide passive strategies such as equity replacement.

### **Tail-Risk Protection**

The primary objective of Capstone’s tail-risk protection strategies is to provide “tail-risk hedging” generally with respect to global equity markets. This means investing a certain amount of “insurance premium” seeking to generate outsized returns in the event of a market correction or “crash”. A “crash” may generally be thought of as an event, including (without limitation) any of the following, over a relatively compressed period of time:

- A sharp equity market correction;
- A liquidity crisis or dramatic widening of risk premium;
- Extremely elevated volatility of volatility;
- A sharp steepening of volatility skew; and
- A sharp increase in volatility.

Capstone refers to these as “crash” events because the objective, upon the occurrence of such an event, is to achieve a positive, non-linear payoff: a return profile that exhibits larger returns relative to the market correction.

A second objective of the tail risk protection strategies is to reduce the annual bleed on its investments to a pre-determined amount (the “Annual Premium Budget” or “APB”). The APB is the aggregate cost of such fixed payments budgeted for a Capstone Fund to incur each year in implementing its tail protection strategies expressed as a dollar amount. Because the pricing of derivatives to which a Capstone Fund is a party can be



expected to fluctuate dramatically over time, there can be no assurances that a Capstone Fund will not be required to pay more than the APB in any year.

Although an investor could invest in the tail-protection strategies as a way of expressing a bearish investment view of the broader equity markets, the strategy is intended to be part of a comprehensive strategy of hedging market risks to an investor's securities portfolio. Investors who invest directly in tail-protection strategies should determine the proper size of an investment in the strategy based on such factors as the size and risk characteristics of its investment portfolio (including, without limitation, such measurements as portfolio beta, security, asset class, sectoral and geographic concentrations, correlations, and expected volatility / variance in both up and down markets) and the APB. An investor should request from Capstone any information about the strategy and investments that it and its advisors require to make this determination.

The strategy cannot be expected to hedge against any particular risks to which a given portfolio is exposed. There can be no guarantee that the strategy will generate positive returns during any specific market sell-off or correction. It is not the strategy's objective to provide a large hedge in the event of a small market correction. Similarly, it is not the strategy's objective to have positive performance during a period of a calm, protracted market decline. Generally, investors may expect the strategy to decline in value during most market environments. Accordingly, in order to maintain the same level of exposure, an investor may be required to increase its investment periodically. In addition, an investment in the strategy should be considered a long-term investment.

While generally following the same investment strategy, Capstone provides investors the ability to tailor the management of such investor's single-investor fund or SMA through investment and risk guidelines and other specialized terms.

### **Equity Replacement**

Capstone's equity replacement strategy seeks to replace a long equity exposure profile through the use of derivative instruments using Capstone's proprietary models and derivatives expertise to identify the optimal instruments to express (i) a long beta profile that generates income and / or generates upside leverage, depending on the attractiveness of each opportunity, and (ii) a short volatility profile to benefit from the spread between implied and realized volatility.

Capstone takes a two-pronged approach to equity replacement by blending "Passive" (beta) and "Active" (alpha) strategies to diversify the sources of return and target a more balanced return profile. The alpha component can add income during a low volatility market.

*Passive strategies.* Capstone classifies skew risk premium harvesting methodologies as a "passive strategy" and takes advantage of the higher prices of out-the-money puts compared to the prices of out-of-the-money calls. These strategies can consist of selling puts, as well as buying calls to participate in additional upside when pricing is advantageous. The selection of the specific puts and calls is based on probabilistic analysis that compares the implied distribution curve with the actual historical distribution curve to look for discrepancies. Passive strategies have a higher beta or directional component compared to active strategies.

*Active strategies.* Capstone classifies volatility risk premium harvesting methodologies as an "active strategy". These strategies consist of selling short-term options and neutralizing the delta of the portfolio on a daily basis, selling short-term variance, and related strategies. These strategies take advantage of the general overpricing of implied volatility compared to the subsequent realized volatility and seek to generate income.



For both active and passive strategies, the trade identification process will entail both qualitative and quantitative components. Once a particular investment has been determined, Capstone will have the discretion to execute and adjust the derivative trades necessary to effectuate the aim of such investment.

The equity replacement strategy may suffer losses in conjunction with adverse moves in the underlying assets. An investment in the equity replacement strategy should be considered a long-term investment.

Capstone will formulate and develop general trade structures designed to produce payoffs that best serve the objective of an investor's equity replacement strategy. This involves building a universe of derivative instrument types (and combinations of those instruments) that Capstone will use to execute the investment strategy of an Account. This effort will be ongoing, and the universe of the equity replacement strategy's investments will be dynamic, as Capstone will constantly be searching for and evaluating the optimal methods in which to replace underlying exposure in the relevant assets.

Capstone will monitor the market, leveraging its quantitative and qualitative tools along with market knowledge and market access, to determine when it is optimal to adjust the positioning held by an investor's equity replacement strategy Account. Positions will be managed and rotated with the intention of keeping the equity replacement strategy invested through the optimal products / strategies at any given time. Because the equity replacement strategy replaces direct equity exposure, Capstone does not increase or decrease directional exposure based on Capstone's views as to future direction of the equity markets, unless an investor instructs in relation to such investor's Account.

Each equity replacement strategy Account may choose to pay premium for certain structures when appropriate. Each equity replacement strategy Account may also sell puts as part of the asset replacement process. However, it is not mandatory for an Account to have a short put position.

### **Opportunistic Investing**

Capstone will seek to identify price dislocations within the options and volatility markets across different asset classes and will trade across a multitude of instruments in the derivatives universe and across many different regions. The objective of each Account trading an opportunistic strategy will be to capture what Capstone perceives to be the best value within the global option and volatility markets. The profile of an Account could range from being long volatility to short volatility depending on the opportunity set and mandate provided to Capstone by an investor. Accounts may also take directional views and may use options to express these views, the sizing of which will depend on the opportunity set and the mandate provided to Capstone by an investor.

### **Dispersion**

The objective of Capstone's dispersion strategy is to provide absolute returns by seeking to harvest equity index correlation risk premium. Equity index correlation risk premium is the difference between expected average correlation of price returns of index constituents, implied through the option prices of the index compared to the prices of the options of the index's constituents, and the realized correlation of price returns of the index's constituents.

Capstone's dispersion strategy attempts to achieve its primary objective through selling equity index volatility and purchasing the volatility of index constituents or sector volatility. The investment program utilizes an active correlation risk premium monetization program that utilizes both single name and index options among other strategies. Typically, an Account will purchase long volatility positions in the single names or sectors that comprise a particular index while selling volatility positions in the index itself, seeking to capture the spread between implied



and realized correlation. Long volatility exposure will be sought in as many of the largest percentage constituents of the relevant index as is economically feasible and as Capstone deems appropriate. An Account will monitor both US and global indices for potential investment.

Dispersion strategies seek to take advantage of supply / demand imbalances in equity index options relative to single stock options created by markets that favor equity index and sector options for hedging compared to options on single name stocks. For instance, Capstone believes that many investors buy options on the Standard and Poor's 500 Index (the "S&P 500") rather than buying options on all of the component stocks within the S&P 500. Dispersion strategies seek to monetize the structural richness of index options compared to the options on its components without taking directional market exposure. Because volatility of a multi-asset portfolio, such as an index or sector, is a function of the correlation between the component assets, structurally rich index / sector options imply higher correlation between constituents than the level of correlation actually realized generally. Capstone seeks to isolate and monetize the correlation risk premium by selling structurally rich index / sector options or derivatives while simultaneously buying a portfolio of less rich options or derivatives on constituents of the index / sector.

### **Risk Layoff**

Capstone's risk layoff strategy generally seeks opportunities where dealers and other institutions have a need to offset risk exposure. In order to select trades, the strategy will evaluate the current entry levels for each trade, historical performance, where applicable, of the trade, the likely mark-to-market sensitivity of each trade and the likely correlation of each trade with the existing trades in the portfolio. The strategy will size the exposure of each trade in accordance with the above factors, as well as the depth and liquidity of the trade and the tenor of the trade. These trades are expected to be longer-dated trades. Tenors will generally range from between 1 to 3 years, but may be less than 1 year and exceed 5 years in certain circumstances. The strategy may frequently trade short-dated instruments to hedge and to monetize existing risk.

Positions within the risk layoff strategy are rolled or exited when deemed to be advantageous, in consideration of trading costs, due to the existence of a more attractive trade or due to re-examination of the position from a return and risk management perspective. However, unless conditions materially shift, these trades are generally intended to be held to maturity if possible. This is partly because in some circumstances, due to the longer tenor of these trades and illiquidity as compared to listed exchange traded options, the strategy may face materially higher bid / offer costs to exit positions before expiry. If positions are exited prior to maturity (for example, in order to meet investor withdrawal requests), the strategy may face increased trading costs and / or longer exit timing. As such, the fair value of the strategy's positions may at any time, including for purposes of calculating the official monthly net asset value, be significantly higher (or lower) than the actual value that would be realized if the strategy should exit such positions if required to do so prior to maturity. Additionally, the bespoke nature of some of the trades may require reliance on specific counterparties for unwinding and valuation of the trades, which can further affect the mark-to-market and valuation of the trade during its life, as well as the costs of exiting a trade before expiry or the time required for such an unwind.

Weightings across the trades within the strategy will be based on quantitative analysis with a qualitative overlay that includes consideration of the expected correlation between trades. Weightings may be dynamic over time. Factors accounted for in selection and weighting will include (but are not limited to) expected carry, tenor of the trade, expected downside, mark-to-market sensitivity, size and liquidity of the opportunity, correlation to other trades, counterparty exposure and margin requirements. As new capital is allocated to the strategy or as existing trades expire, new capital will be deployed into what Capstone believes to be the most attractive opportunities,





in accordance with the above considerations. The strategy may choose to maintain excess cash until such time as entry levels for targeted trades are more advantageous.

Allocation to underliers will be opportunistic and at the discretion of Capstone based upon quantitative screening, market intelligence, and pre-existing exposure. Positions may be managed and rotated to remain invested through what Capstone believes to be the optimal set of assets. The strategy will look to redeploy expiring or exited positions into opportunities Capstone deems attractive or deploy new capital.

## **RISK OF LOSS**

The strategies employed by Capstone involve risk of loss that clients, Capstone Fund and SMA investors should be prepared to bear. The following is a summary of some of the material risks associated with the strategies that comprise a significant portion of the Accounts' investments. This summary does not attempt to describe all risks associated with an investment and, as such, is not an exhaustive list. Further information on risks specific to a Capstone Fund or SMA can be found in the offering documents for such Capstone Fund or SMA.

### **CERTAIN MATERIAL RISKS RELATING TO CAPSTONE'S INVESTMENT STRATEGIES**

**STRATEGIES RELY ON THE SUBJECTIVE DETERMINATIONS OF CAPSTONE.** Although Capstone uses quantitative valuation models in evaluating the economic components of its trades and valuations for its security positions, Capstone's strategies, with the exception of its systematic strategies, are by no means wholly systematic; the market judgment and discretion of Capstone's personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable a trading strategy becomes.

**QUANTITATIVE STRATEGIES GENERALLY.** The success of an Account's quantitative investment strategy is heavily dependent on the mathematical models used by Capstone in attempting to exploit short-term and long-term relationships among prices, volatility, and other factors. Capstone may select models that are not well-suited to prevailing market conditions. Models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may not be reliable if unusual events specific to particular issuers, or major events external to the operations of markets, cause extreme market moves that are inconsistent with the historic correlation and volatility structure of the market. Models also may have hidden biases or exposure to broad structural or sentiment shifts. Furthermore, the effectiveness of such models tends to deteriorate over time as more traders seek to exploit the same market inefficiencies through the use of similar models.

**FUNDAMENTAL ANALYSIS.** Certain trading decisions made by Capstone may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to an Account's trading strategies, an Account may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that Capstone misinterprets the meaning of certain data, an Account may incur losses.

**INVESTMENTS MAY NOT BE ADEQUATELY HEDGED.** Although certain investments are intended, in part, to hedge other holdings, there is no guarantee that they will do so to the degree predicted by theory or otherwise to a satisfactory extent. In calculating the overall exposure to the investments, Capstone must make certain determinations, including its prediction of the future volatility of the investments. If Capstone was unable to forecast accurately any one or more of the components used to determine how best to hedge its investments, Capstone could, in practice, find itself over- or under-hedged, which could materially and adversely affect the





performance of the investments. Capstone is not required to hedge an Account's positions and there can be no assurance that hedging transactions will be available.

**LEVERAGE RISK.** Certain Capstone Funds may employ leverage in the execution of their investment strategies, both through borrowings with Prime Brokers and through the effective leverage embedded in investments in derivative instruments, such as options, futures and swaps. Transactions in options, futures and swaps are inherently and at times substantially leveraged. This is because a relatively small dollar amount enables a Capstone Fund to achieve a considerably larger exposure to the instrument underlying the options and futures. While the Capstone Funds generally may hold a substantial amount of cash, thereby reducing the effective leverage of such Capstone Fund, a Capstone Fund will not be required to hold any specific amount of cash, and the effective leverage may be substantial. The use of leverage increases any losses incurred on investments in direct proportion to the degree of leverage employed. Capstone Funds may trade based upon assumptions regarding the availability of leverage under current margin rules and arrangements. If controlling authorities increase margin requirements or a Capstone Fund is no longer entitled to exemptions from the general margin rules, such Capstone Fund may not be able to pursue its objectives and may be required to liquidate positions at inopportune times or at unfavorable prices.

**SHORT-SELLING INVOLVES MARKET AND REGULATORY RISKS.** An Account may engage in short-selling as part of its investment program; however, short-selling, and especially short-selling on margin, is a risky strategy. If such Account were to sell an instrument short, it would be selling an instrument it did not own. To make delivery of those instruments sold, such Account would have to borrow those instruments. The gain or loss realized would be the difference between the price at which those instruments were sold and the price at which those instruments were subsequently re-purchased. If the market price of the instrument were to increase, the Account could be forced to cover the short position at a higher price. Since there is theoretically no limit on the price of an instrument, an unhedged short sale theoretically involves unlimited risk. Furthermore, an Account could be prematurely forced out of a position if the lender from which such Account borrowed the instrument to effect the short sale were to recall such instrument at a time when such instrument could not be borrowed from other sources. The U.S. government and certain foreign jurisdictions have at times taken measures to impose restrictions on the ability of investors to enter into short sales, including a complete prohibition on taking short positions in respect of certain issuers. Such restrictions may negatively affect the ability of an Account to implement its strategies. It cannot be determined how future regulations may limit an Account's ability to engage in short-selling and how such limitations may impact its performance.

**PORTFOLIO TURNOVER RATE MAY RESULT IN ADDITIONAL COSTS.** The turnover rate of an Account's investment portfolio is expected to be significant, involving substantial brokerage commissions, fees and other transaction costs. The Accounts will bear such costs.

**INVESTMENT SOFTWARE AND SYSTEMS ARE SUBJECT TO RISKS OF SYSTEMATIC ERRORS.** Capstone's investment strategies and processes are highly complex and rely heavily on a combination of third-party and proprietary software, models, analytics and other systems (including the Capstone Trading Platform). Errors have arisen, and may in the future arise, during the conception, design, writing, testing, coding, maintaining, monitoring and deployment of any such systems ("Systematic Errors"). Due to the complex nature of these tools, Systematic Errors can be difficult to detect and can remain undetected for a significant period of time. Even if a Systematic Error is discovered, there is no assurance that it will be resolved or that such resolution will occur promptly. In particular, Capstone will have limited, if any, control over Systematic Errors in third-party software and systems. The risk of loss from such undetected or unresolved Systematic Errors is compounded by the high portfolio turnover and



frequency of trading. Systematic Errors may cause Capstone to execute unanticipated trades or to fail to make anticipated trades, to allocate trades improperly among Accounts or among pods, to take certain risk-increasing actions or fail to take certain hedging or risk-reducing actions, all of which can adversely affect investments and returns of Accounts. Systematic Errors will not be treated as a trading error subject to reimbursement under Capstone's Trade Error Policy. Capstone generally will not notify investors of Systematic Errors.

**CAPSTONE'S SUCCESS DEPENDS ON CERTAIN SOFTWARE AND TECHNOLOGY LICENSING.** Capstone and the Accounts rely upon licenses of certain vital trading technologies, software and systems necessary for a material portion of the Capstone investment operations. Capstone and the Accounts may enter into software or technology licenses and service agreements with third parties. If any of the licensed technology, systems, analytical tools, data or software should, for any reason, become unavailable or fail to operate properly, Capstone's ability to invest or manage an Account may be substantially impaired, which likely would result in significant losses.

**CYBERSECURITY RISK.** As part of its business, Capstone processes, stores and transmits large amounts of electronic information, including information relating to the transactions of Accounts and personally identifiable information of investors. Similarly, service providers of Capstone and the Accounts, especially the Capstone Fund administrators, may process, store and transmit such information. Capstone has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service or sabotage systems change frequently and may be difficult to detect for long periods of time. The loss or improper access, use or disclosure of Capstone's or an Account's proprietary information may cause Capstone or the Account to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the investments of an Account.

#### **MATERIAL RISKS RELATING TO CERTAIN INVESTMENT INSTRUMENTS**

**INVESTMENTS IN EQUITY SECURITIES MAY BE HIGHLY SPECULATIVE.** Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Dividends customarily paid to equity holders can be suspended or cancelled at any time. Equity prices are directly affected by issuer specific events, as well as general market conditions, and may be subject to wide and sudden fluctuations in market value. In addition, in many countries, investing in common stocks is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments.

**FUTURES MAY HAVE HIGHLY VOLATILE PRICES AND WILL INVOLVE LEVERAGE.** Futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to investors. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested.

**OTC DERIVATIVES TRANSACTIONS.** To the extent not mitigated by implementation of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") if at all, the risks posed by OTC derivatives transactions, which can be extremely complex and may involve leveraging of an Account's assets, include: (i) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (ii) market risk (adverse movements in the price of a financial asset or commodity); (iii) legal risks (the



characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (iv) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (v) documentation risk (exposure to losses resulting from inadequate documentation); (vi) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (vii) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (viii) concentration risk (exposure to losses from the concentration of closely related risks, such as exposure to a particular industry or exposure linked to a particular entity); and (ix) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

**CREDIT DEFAULT SWAPS.** Accounts may invest in credit default swaps and other credit derivatives. These transactions generally provide for the transfer from one counterparty to another of certain credit risks inherent in the ownership of a financial asset, such as a bank loan or a high-yield debt security. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset and the risk that the credit of the obligor or the underlying collateral will decline or that credit spreads for like assets will change (thus affecting the market value of the financial asset). The transfer of credit risk pursuant to a credit derivative may be complete or partial and may be for the life of the related asset or for a short period.

**OPTIONS TRADING INVOLVES CERTAIN INHERENT RISKS.** Trading volatility is one of the most complex of all financial strategies and requires significant quantitative and mathematical resources and capabilities. The pricing of options involves a wide variety of factors—including the variability of interest rates, the time to expiration, the price of the underlying asset, the volatility of the underlying asset and the general market sentiment. Not only will different traders differ among themselves concerning the correct theoretical value for a given option, but also actual and theoretical values may diverge for extended periods of time. There can be no assurance that Capstone will correctly value an Account's options positions or that the market will, in fact, regress to theoretical values; consequently, substantial losses could be incurred by an Account. Options are often quoted in terms of implied volatility. This generally means the annualized percentage change in the underlying, for a one standard deviation move. When the options imply a higher volatility than ultimately occurs, and the measurement of the volatility corresponds to the same periodicity as the portfolio's flattening of its market exposure, an investor will earn less than the Treasury rate (all else being equal). Even if individual equities are more volatile than expected, an Account could suffer losses from increased diversification in the index, resulting in less than expected movement in the index. While volatility can create profit opportunities for an Account, it can also result in such Account incurring significant losses. At any given time, different market participants will have different views on the level of market volatility; if Capstone incorrectly establishes market volatility, Capstone will misprice the options which it trades which may result in an Account incurring significant losses.

**CERTAIN ASSETS WILL BE ILLIQUID.** Certain Accounts may invest and trade, from time to time, in illiquid and restricted, as well as thinly-traded, instruments and investment products, including privately-placed securities and instruments. An Account may also make investments that otherwise become illiquid or restricted after the date of investment. A portion of certain Account assets may be classified as Level III assets. There may be no trading market for illiquid instruments, and such Account might only be able to liquidate these positions, if at all, at disadvantageous prices. As a result, an Account may be required to hold such instruments despite adverse price movements. In addition, if an Account makes a short sale of an illiquid security or instrument, it may have difficulty in covering the short sale, resulting in a potentially unlimited loss on that position. Under stressed market



conditions, even higher-rated securities may become illiquid, and the yields and prices of such securities may become as volatile as certain much lower-rated securities. Capstone may, under certain circumstances, value the illiquid securities and instruments in an Account's portfolio in its good faith discretion; however, there can be no assurance that these valuations will accurately predict the price at which an arm's-length buyer would be willing to purchase the securities or instruments.

**COUNTERPARTY RISKS.** A Capstone Fund is expected to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Capstone Fund to trade in any variety of markets or asset classes over time. However, there can be no assurance that the Capstone Fund will be able to establish or maintain such relationships. A disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Capstone Fund's business due to the Capstone Fund's reliance on such counterparties. The Capstone Fund may at certain times have a material portion of its assets exposed to the credit risk of a particular custodian, futures clearer, broker, clearinghouse, exchange or counterparty. Such a concentration could magnify the risks to the Capstone Fund of a failure of one or more of such custodians, futures clearers, brokers, clearinghouses, exchanges or counterparties.

#### **CERTAIN MATERIAL RISKS RELATING TO MARKET CONDITIONS GENERALLY**

**STAGNANT MARKETS MAY RESULT IN A DECREASE IN PROFITABILITY.** The volatility strategies implemented by an Account depend on changes in volatility. In periods of trendless, stagnant markets or deflation, these strategies have materially diminished prospects for profitability. Stagnant markets with static credit positions present the least opportunities for an Account.

**TRANSACTION VOLUME AND MARKET LIQUIDITY MAY IMPAIR PERFORMANCE.** A decline in cash flows into the capital markets or a slowdown in investment activity in the capital markets, as well as other factors, may cause a decline in transaction volumes in the options markets. An Account's investment activities may be affected materially by transaction volumes in the options markets. Higher market volume typically provides greater opportunities to engage in revenue-generating transactions. Therefore, a decline in transaction volumes may result in an Account incurring significant losses. If the liquidity of the secondary market decreases substantially for an option contract held by an Account, such Account may not be able to close out a position prior to its expiration or exercise and may have to purchase or sell the underlying instrument, make or receive a cash settlement or meet ongoing margin requirements. An illiquid secondary market could be caused by a number of factors, including a thin trading market in the particular instrument, severe market unrest and trading suspensions. This may result in an Account incurring significant losses.

**EXPOSURE TO GLOBAL MARKET RISKS, INCLUDING EMERGING MARKET AND FRONTIER MARKET RISKS.** The Capstone Funds will invest primarily in United States markets, and also in European and Asian markets, but may invest on a more global basis in both developed and, from time to time, emerging and frontier markets. In doing so, a Capstone Fund is subject to (i) currency exchange-rate risk; (ii) the possible imposition of withholding, income or excise taxes; (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and (iv) economic and political risks, including expropriation, currency exchange control and potential restrictions on foreign investment and repatriation of capital. Investments in emerging markets present unusual risks, including government instability, political risk, lack of or less than transparent priority, the imposition of currency controls, expropriation risk and the application of various laws and regulations. Volatility-related strategies, and credit-related strategies more specifically, in emerging markets are subject to unusual risks due to the uncertainty of



such countries' legal regimes and procedures, as well as the risk of other market participants having better access to relevant market information. Compared to investments in emerging markets, investments in frontier markets present heightened volatility, political, regulatory, legal, economic and other investment uncertainties, including greater risks of inflation, illiquidity, nationalization, trade barriers and reliance on international aid or particular exports or commodities.

**GLOBAL NATURAL DISASTERS, OUTBREAKS, GEOPOLITICAL EVENTS, TERRORIST ATTACKS AND WAR.** Countries and regions in which an Account invests, where Capstone has offices or where a Capstone Fund, SMA or Capstone otherwise does business are susceptible to natural disasters (e.g., fire, flood, earthquake, storm and hurricane) and epidemics, pandemics or other outbreaks of serious infectious diseases. The occurrence of a natural disaster or outbreaks of infectious diseases could, directly or indirectly, adversely affect and severely disrupt the business operations, economies and financial markets of many countries (even beyond the site of the natural disaster or the outbreak) and could adversely affect an Account's investment program or Capstone's ability to do business. In addition, terrorist attacks, or the fear of or the precautions taken in anticipation of such attacks, could, directly or indirectly, materially and adversely affect certain industries in which an Account invests or could affect the countries and regions in which such Account invests, where Capstone has offices or where the Account or Capstone otherwise does business. Other acts of war (e.g., war, invasion, acts of foreign enemies, hostilities and insurrection, regardless of whether war is declared) and related geopolitical events, including global sanctions regimes, could also have a material adverse impact on the financial condition of industries or countries in which an Account invests, or the currency in which investments or assets are denominated.

**REGULATORY RISK.** The legal, tax and regulatory environment worldwide for private investment funds (such as Capstone Funds) and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of a Capstone Fund to pursue its investment program and the value of investments held by the Capstone fund.



## Item 9 – Disciplinary Information

On May 24, 2016, the Finnish Financial Supervisory Authority (the “FIN-FSA”) levied an administrative fine on CGM under its previous name, Capstone Volatility Master (Cayman) Limited (“CVM”), because the FIN-FSA determined that CVM did not timely submit the FIN-FSA disclosure to comply with the disclosure requirement under Article 6(1) of Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling (“SSR”). CVM sent a public notification of a net short position of 0.50% in the issued share capital of Nokia OYJ on October 10, 2014. Further short position movements led to disclosures cumulating to a 1.19% disclosure on November 12, 2015. Thereafter, on November 12, 2015, CVM closed / covered the entire short position of Nokia OYJ. During this period, CVM made 10 timely notifications due to fluctuations in the Nokia short position. On November 13, 2015, due to administrative error, CVM failed to report that it had closed out of the Nokia position the previous day. On January 12, 2016, Capstone identified the error and self-reported the corrected position to the FIN-FSA. Subsequently, the FIN-FSA sent a letter to CVM on March 23, 2016, acknowledging the matter and providing an opportunity to respond. However, in its subsequent decision, the FIN-FSA wrote that the time specified in the SSR for submission of a notification to the competent authority is unconditional and failure to comply with it cannot be corrected regardless of the mitigating factors highlighted by Capstone in its response. The FIN-FSA imposed a fine of €20,000.

On October 16, 2019 (“Hearing Date”), Capstone settled with the Chicago Board of Trade (“CBOT”) for a matter relating to an Exchange for Related Position (“EFRP”) package traded on July 9, 2018. On the Hearing Date, the CBOT’s Trade Business Conduct Committee found that the EFRP in question lacked both a reasonable degree of price correlation and opposing market bias, and thus deemed the trade to have been executed in violation of CBOT Rule 538.C. In a mutually agreed upon settlement of this matter, the CBOT imposed a fine in the amount of \$15,000 USD, and Capstone neither admitted nor denied the rule violation on which the penalty is based.

To the best of Capstone’s knowledge, there are no additional legal or disciplinary events that are material to an advisory client or prospective advisory client’s evaluation of Capstone’s advisory business or the integrity of Capstone’s management.

As part of Capstone’s routine compliance monitoring, all employees are asked to certify upon hire, and thereafter on an annual basis, whether they have been the subject of any relevant disciplinary actions.





## Item 10 – Other Financial Industry Activities and Affiliations

Except as described in this Brochure, neither Capstone nor any of its management persons has a relationship or an arrangement that is material to its advisory business or to its advisory clients with any related person that is a pooled investment vehicle, investment adviser, commodity pool operator, or commodity trading adviser. In addition, Capstone does not recommend or select other investment advisers for its clients.

### CFS and CFS II

CFS serves as the general partner of CGUS and as the manager of the CGIL and, as such, is entitled to receive performance allocations from CGUS and CGIL. CFS II serves as the general partner of certain Capstone Funds on the Solutions platform and, as such, may be entitled to receive performance allocations from such Capstone Funds.

### Capstone UK and Capstone Netherlands

Capstone UK is a London-based subsidiary of Capstone that has been appointed by Capstone as a sub-adviser to CGM. Capstone UK is a MiFID firm, authorized and regulated by the UK Financial Conduct Authority ("FCA"). Capstone UK is compensated by Capstone for these services, and CGM investors are not subject to additional fees related to these services.

Capstone Netherlands is an Amsterdam-based affiliate under common control with Capstone that has been appointed by Capstone as a sub-adviser to CGM. Capstone Netherlands is compensated by Capstone for these services, and CGM investors are not subject to additional fees related to these services.

Both Capstone UK and Capstone Netherlands are relying investment advisers of Capstone.

### Capstone Australia

Capstone AUS is an Australian based subsidiary of Capstone. Capstone AUS provides services with respect to the offering of non-U.S. Capstone Funds in certain non-U.S. jurisdictions, and Capstone Fund investors are not subject to additional fees related to these services.

### Capstone Hong Kong

Capstone HK is a Hong Kong based subsidiary of Capstone. Capstone HK is licensed with the Hong Kong Securities and Futures Commission to carry on business in Type 9 (asset management) regulated activities in Hong Kong. Capstone HK has been appointed by Capstone as sub-adviser to CGM.

Capstone HK is a relying investment adviser of Capstone.

### CFTC Registration and NFA Member Status

Each of Capstone, Capstone UK and Capstone AUS is registered as a Commodity Pool Operator ("CPO") with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA") in such capacity.

### Minority Owner of Capstone

Subsidiaries of Navigator Global Investments Limited ("Navigator") hold a passive, non-voting, minority equity interest in each of CFS, Capstone and CFS II, an affiliate of Capstone and CFS. Navigator has no control over the investment process or day-to-day operations of CFS, Capstone, the Capstone Funds, but has certain



information rights and consent rights relating to actions by CFS, Capstone and CFS II, as well as certain rights to receive a portion of the net income generated by CFS, Capstone and CFS II.





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

### CODE OF ETHICS AND PERSONAL TRADING

Related to its fiduciary obligations, Capstone has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”). All Capstone Access Persons are expected to uphold the following general principles:

- Place client interests first at all times.
- Comply with applicable laws and regulations, including, without limitation, U.S. federal securities laws.
- Conduct all personal securities transactions in a manner consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an Access Person’s position of trust and responsibility.
- Operate with integrity and avoid using an Access Person’s position for inappropriate advantage.
- Keep the information concerning the identity of securities and financial circumstances of Accounts, including the Accounts’ investors, confidential.
- Maintain independence in the investment decision-making process at all times.

The Code is applied to all Access Persons of Capstone, Capstone UK, Capstone Netherlands, Capstone HK and Capstone AUS. The Code places restrictions on personal trading by Access Persons, including that they disclose their personal securities holdings and transactions to Capstone on a periodic basis. Access Persons are generally not permitted to buy and sell individual publicly traded securities. Access Persons are allowed to trade in treasury securities, municipal bonds, open-ended mutual funds, certain crypto-currencies and, with pre-clearance, broad-based Exchange Traded Funds, which are generally subject to a 30-day short swing trading prohibition. Access Persons may make investments in other private investment funds, subject to preclearance. In addition, Access Persons are permitted to hold accounts over which a third-party manager exercises exclusive discretionary authority.

Further, the Code contains restrictions on Access Persons (i) giving and receiving gifts and entertainment in connection with their Capstone employment, (ii) prohibitions on engaging in certain activities, such as serving on the boards of outside companies without prior approval, and (iii) policies and procedures concerning U.S. political contributions in connection with Rule 206(4)-5 under the Advisers Act.

Employees of Capstone are required to certify their understanding of and compliance with the Code, initially upon becoming an Access Person, annually, and upon any material change to the Code.

Capstone also has policies and procedures designed to prevent the misuse of material, non-public information (“Insider Trading Policies”). Capstone’s Insider Trading Policies prohibit Capstone and its employees from trading for Accounts or themselves, or recommending trading, in securities of a company while in possession of material, non-public information about the company, and from disclosing such information to unauthorized persons.

A copy of the Code is available to any current or prospective client or Capstone Fund or SMA investor by submitting a request to Capstone’s Chief Compliance Officer at [clientservice@capstoneco.com](mailto:clientservice@capstoneco.com).



## Item 12 – Brokerage Practices

*Counterparty Selection, Best Execution, and Directed Brokerage.* Capstone has complete authority over the selection of brokerage firms used to custody assets of the Capstone Funds, as well as execute and clear portfolio transactions on behalf of the Capstone Funds. Pursuant to its Best Execution Policy, Capstone endeavors to place portfolio transactions with broker-dealers who will execute transactions at the most advantageous terms reasonably available under relevant circumstances. Capstone will seek to obtain best execution, taking into account all factors Capstone deems relevant, including the quality of execution, the brokerage firm's financial responsibility and reputation, range and quality of the services made available to the Accounts, and the brokerage firm's professional services, including clearance procedures and ability to provide research information for consideration, analysis and evaluation by Capstone. If Capstone determines in good faith that the transaction costs charged by a brokerage firm are reasonable in relation to the value of the products or services such brokerage firm provides, Capstone may incur transaction costs in an amount greater than the lowest cost available. Capstone has no directed brokerage arrangements. If Capstone were to engage in such arrangements, there is no assurance that best execution could be achieved.

Capstone uses full-service broker-dealers that provide research or other products or services to most or all of their customers. As a result, Capstone may, on occasion, receive and use such services provided by these broker-dealers. Such services may include research and other brokerage services. In such instances, Capstone may have an incentive to select broker-dealers based on the ability to receive such research rather than on an Account's interest in receiving the most favorable execution.

Such full-service brokers-dealers may also provide other products, including consulting services, risk analytics and capital introductory services to Capstone. In these situations, Capstone receives a benefit because it does not have to pay for such services. Additionally, the capital introductory services provided by full-service broker-dealers provide Capstone with an opportunity to solicit new investors and / or obtain client referrals. Capstone does not separately compensate such broker-dealers for the provision of such services. However, the receipt of such services may pose a conflict of interest for Capstone as Capstone may have an incentive to select broker-dealers based on the ability to receive such services rather than an Account's interest in receiving the most favorable execution.

Employees of Capstone may receive gifts and gratuities from broker-dealers or persons with whom Capstone does business. This may include meals, tickets to sporting events and other entertainment, transportation, attendance at seminars or other educational training or informational events, logo items and other items of small value, including gifts associated with life events such as birthdays or weddings. Employees may not accept gifts or entertainment from any business partner that exceed a certain value, communicated by Compliance, in any calendar year without the consent of Compliance.

Capstone, through a subsidiary, is the organizer and a sponsor of an annual volatility industry conference, the Global Volatility Summit. Capstone employees may solicit sponsorships on behalf of the Global Volatility Summit to help facilitate the organization and offset the costs associated with related events. Such sponsors include, but are not limited to, various broker-dealers, trade execution platforms and other vendors used by Capstone in connection with its investment advisory business. Generally, Capstone's Investor Relations team manages the sponsorship solicitation process with no involvement from Capstone's investment professionals.

*Soft Dollar Benefits.* Capstone currently has no soft dollar arrangements. Although Capstone does not currently have any soft dollar arrangements, the investment management agreements entered into among the Capstone



Funds and Capstone (the “Investment Management Agreements”) provide that Capstone may select prime brokers for the Capstone Funds and authorize Capstone to direct brokerage to firms that provide research services and brokerage services in exchange for receiving commission credits. Products and services acquired this way are generally referred to as services acquired with “soft dollars” (collectively “Soft Dollar Services”). It is Capstone’s policy to enter into arrangements for Soft Dollar Services only to the extent that such Soft Dollar Services are within the “safe harbor” provided by Section 28(e) of the Exchange Act. Accordingly, Capstone may in the future cause the Capstone Funds to pay a broker-dealer that provides brokerage services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another broker-dealer would have charged, if Capstone determines in good faith that such commission or transaction cost is reasonable in relation to the value of brokerage services, research products or other services received.

*MiFID II.* Capstone UK is a MiFID investment manager authorized and regulated by the FCA. Capstone UK utilizes research products in a range of forms, which are deployed in the investment decision-making process. Article 24 of the revised Markets in Financial Instruments Directive or MiFID II (the “Directive”) bans investment firms that provide portfolio management services and / or investment advice from receiving fees or any monetary or non-monetary benefits from third parties in relation to the provision of services by third parties to clients. Such benefits are considered as “inducements” under the Directive and would therefore create a potential conflict of interest between Capstone UK and its clients. Investment research is deemed an inducement under the Directive, except to the extent it is subject to a separate research charge. Therefore, Capstone UK has an obligation to reject any research or other materials received but not paid for, unless deemed a minor non-monetary benefit permissible under the Directive. Capstone UK has a policy and process to manage unbundled payments for execution, advisory services, investment research, and any other service, which is deemed to be a monetary benefit to Capstone.

*Trading Errors.* From time to time, during the ordinary course of trading for the Accounts, trade errors will likely occur. Capstone distinguishes between trading errors and errors arising from process or operational incidents. A trade error is deemed to have occurred when a trading action taken is not the intended action of the trader. Examples of trading errors include: (i) buying or selling the wrong investment; (ii) buying or selling an investment in the wrong quantity; or (iii) buying rather than selling an investment (and vice versa). Capstone has adopted a Trade Error Policy that applies to the Accounts. Pursuant to this policy, as a general matter and to the extent not inconsistent with Capstone’s or any third party’s contractual arrangements with the relevant Capstone Fund, SMA or under applicable law, including ERISA, trade errors will be absorbed (in the case of a trading loss) or retained (in the case of a trading gain) by Accounts on whose behalf the trade was placed. While Capstone and its counterparties have controls in place to prevent trade errors, there is always the possibility that such errors may occur. Given the volume of transactions executed by Capstone on behalf of the Capstone Funds, investors (other than plan asset vehicles) should assume that trade errors (and similar errors) may occur and that the Accounts will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of Capstone’s personnel.

Other errors arising from Capstone’s investment and operational processes are treated as process or operational incidents. Examples of “process incidents” include programming and coding errors, hardware and software errors, software development errors, implementation and data integration errors and other errors that arise in Capstone’s design, programming or use of models or data sources in its investment management process. “Operational incidents” include incorrect cash movement and associated misallocation of interest, errors with



counterparty or prime broker reporting or an incorrect trade allocation. Process incidents and operational incidents are not considered trade errors and will be addressed on a case-by-case basis by Capstone in accordance with its process and operational incidents policy and its contractual arrangements with the Capstone Funds and SMAs. It may not always be possible to identify losses or gains from process incidents and operational incidents. As a general matter and not inconsistent with Capstone's or any third party's contractual arrangements with the Capstone Funds, SMAs, or applicable law, to the extent process incidents or operational incidents are identified, losses resulting from such process incidents or operational incidents will be absorbed by the Accounts.

Investors may contact Capstone with any questions related to Capstone's Trade Error Policy.

*Trade Allocation.* Capstone will generally allocate investment opportunities among 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 and / or investment guidelines; (ii) the potential for the proposed investment to create an imbalance 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; and (vi) the need to resize risk in an Account's profile (such enumerated considerations and any other considerations which may be taken into account, the "Allocation Factors"). Where trading for one Account is conducted independently from another Account, Capstone does not seek to impose an application of the Allocation Factors in respect of any overlapping positions traded by such Accounts.

Capstone has no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any Account solely because Capstone purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to another Account if, in Capstone's reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable, desirable or in the best interest for such Account. Certain Capstone Funds may be subject to fee terms that are more beneficial to Capstone and its affiliates than those applicable to other Capstone Funds. The exposure of Capstone's principals and employees to a particular Capstone Fund may also be more significant than their exposure to another Capstone Fund.

An Account may have investment objectives, programs, strategies and positions that are similar to or may conflict with other Accounts or may compete with or have interests adverse to other Accounts. Such conflicts could affect the prices and availability of securities in which an Account invests. Even if an Account has investment objectives, programs or strategies that are similar to those of another Account, Capstone may give advice or take action with respect to the investments held by, and transactions of, certain Accounts that may differ from the advice given, or the timing or nature of any action taken with respect to, the investments held by, and transactions of, other Accounts for a variety of reasons, including, without limitation, differences among the investment strategies, target exposure levels, risk considerations, financing terms, regulatory treatment and tax treatment of the Accounts. As a result, an Account may have substantially different portfolios and investment returns than other Accounts.

When an Account is ramping up its investment or trading strategies, it may receive larger allocations, up to and including the entire allocation if appropriate under the circumstances, of certain securities versus other Accounts in order to obtain such Account's desired risk and portfolio size. Conversely, certain Accounts may receive reduced or no allocations of certain securities when other Accounts ramp up their investment and trading strategies. Similarly, when an Account has liquidity needs or otherwise needs to exit a specific investment



(ramping down its investments), such Account may receive larger allocation, up to and including the entire allocation if appropriate under the circumstances, of certain investment sales.

Within the Solutions platform, when any two or more Solutions Accounts intend to trade into or out of the same positions on a particular day, Capstone's policy is to allocate such trades to such Solutions Accounts on a fair and equitable basis, to the extent practicable and in accordance with each Solutions Account's applicable investment strategies and guidelines. When necessary, Capstone will utilize one of the following two approaches, as applicable:

- *Randomization.* If Capstone determines that the purchase or sale of a security on an electronic platform is appropriate for more than one Solutions Account, Capstone will generally send orders to electronic trading platforms for each relevant Solutions Account in a randomized order generated by Capstone. One Solutions Account may receive less favorable pricing or fills than another Solutions Account with respect to a particular trade because of the randomizing function. As a result, certain trades in the same security for one Solutions Account (including a Solutions Account in which Capstone and its personnel may have a direct or indirect interest or an account from which Capstone may receive higher management fees or performance allocations) may receive more or less favorable prices or terms than another Solutions Account, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. Capstone believes over time the randomization process equalizes the advantage seen by any one Solutions Account for one particular trade and should negate the ability of any one Solutions Account to consistently receive such benefit.
- *Aggregation.* If Capstone determines the purchase or sale of a listed or OTC security through an executing broker is appropriate with regard to more than one Solutions Account, Capstone will generally purchase or sell such a security on behalf of the relevant Solutions Accounts with an aggregated order for the purpose of reducing transaction costs, to the extent permitted by the relevant offering memoranda and applicable law. Capstone expects to receive one price (or one average price of multiple fills) on such orders that can be allocated to each relevant Solutions Account based upon pre-determined trade sizes for such Solutions Account. In the event of a partial fill, allocations may be modified on a basis that Capstone deems appropriate, including, for example, to avoid odd lots or de minimis allocations. Some opportunities for reduced transaction costs and economies of scale may not be achieved.

*Cross Trades.* Capstone may use an unaffiliated broker-dealer, custodian or prime broker to trade securities and / or cash between client accounts when such a transaction is advantageous for each account. In such cases, securities will generally be traded at the current market price, the midpoint between the current national best bid and offer or some other fair price as reasonably determined by Capstone. Any transaction costs will be divided equally between the accounts participating in such cross trades. All cross trades must be approved by Compliance.

*Principal Transactions.* To the extent that cross trades may be viewed as principal transactions due to the ownership interest in a Capstone Fund by Capstone and its personnel, Capstone will either not effect such transactions or comply with the requirements of Section 206(3) of the Advisers Act, including disclosure in writing before completion of the transaction of the capacity in which Capstone is acting to each participating client, or independent representative(s) appointed by such client, and obtaining each participating client's consent to the transaction prior to the completion of such transaction.



Capstone is prohibited from engaging in principal trades for certain Accounts.



## Item 13 – Review of Accounts

Accounts are generally reviewed daily by, or under the supervision of, Capstone's Head of Trading.

Capstone considers the careful management of risk to be a critical element of a successful trading program and has developed a range of monitoring and analytical techniques intended to make risk management more rational and effective. For instance, Capstone monitors markets on an ongoing basis. When volatility and trading losses reach predetermined levels, positions are generally reviewed to determine whether to scale back, neutralize, or eliminate such positions. Each Account's portfolio of positions and investments is monitored to maintain the targeted levels of risk and volatility. Capstone's Risk Management team seeks to enhance risk management disciplines, adding value-at-risk computations, stress tests, and additional analyses to attempt to complement the risk control methods already implemented.

Capstone Fund investors receive monthly letters from Capstone describing the performance of such Capstone Funds, along with a commentary by Capstone. Capstone Fund investors also receive monthly statements detailing their account information, including, but not limited to, the account's beginning and ending equity and the account's performance for that period. Performance information is also available through the Capstone investor portal, which can be accessed via a secure link on Capstone's website. In addition, Capstone issues to Capstone Fund investors annual audited financial statements for the relevant Capstone Fund (and, for U.S. investors, tax reports) within 120 days of the end of such Capstone Fund's fiscal year. Single investor Capstone Funds and clients with SMAs receive reports and other information in accordance with their SMA agreements.



## Item 14 – Client Referrals and Other Compensation

Capstone does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither Capstone nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. Capstone may in the future enter into arrangements with third party placement agents, distributors or others to solicit clients and such arrangements will generally provide for the compensation of such persons for their services at Capstone's expense, subject to Rule 206(4)-I under the Advisers Act.





## Item 15 – Custody

Capstone Fund assets will be held in cash or securities at banks, brokerage firms, clearing firms, and other qualified custodians selected by Capstone. No Capstone Fund cash or securities will be held in the actual custody of Capstone or its affiliates. However, Capstone is deemed to have custody of certain assets contained in the Capstone Funds' portfolios since an affiliate of Capstone serves as the general partner of any U.S.-domiciled Capstone Fund, and Capstone has the ability to direct money to and from a Capstone Fund as a representative of such Capstone Fund and to deduct Capstone's fees directly from the Capstone Funds' accounts. In such instances, investors do not receive account statements from the custodian; rather, the Capstone Funds are subject to an annual audit conducted according to the requirements of the Advisers Act Custody Rule and the audited financial statements are distributed to each Capstone Fund investor within 120 days of the end of a Capstone Fund's fiscal year.

For SMAs, Capstone does not have custody since it does not have the authority to hold, directly or indirectly, client funds or securities, or have the authority to obtain possession of them, or have the authority to deduct Capstone's fees directly from such SMAs' accounts. Each month, Capstone's SMA clients receive account statements directly from the qualified custodian for such SMA, who maintains the clients' assets.



## Item 16 – Investment Discretion

Capstone primarily provides discretionary investment advisory services to the Capstone Funds and SMAs. Capstone has been granted discretionary authority to manage each Account pursuant to the applicable Investment Management Agreement and Advisory Agreement. Certain Accounts managed by Capstone generally will provide investors with the ability to tailor the management of such accounts through investment and risk guidelines and may provide other specialized terms.

Capstone also provides non-discretionary investment advisory services to one SMA in accordance with the client's Investment Management Agreement.



## Item 17 – Voting Client Securities

In compliance with Advisers Act Rule 206(4)-6, Capstone has adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with Capstone's proxy voting policies and procedures, which are designed to take into account the best interests of the Accounts, as determined by Capstone in its discretion.

By nature of Capstone's advisory services, a majority of the strategies employed use quantitative valuation models and a largely systematic approach to trading rather than a long-term investment approach. Such strategies are generally not correlated with a given industry, sector, or broader market, and thus generally not dependent upon the outcome of proxy contests.

Capstone has engaged Institutional Shareholder Services ("ISS") to facilitate votes on behalf of its clients. Unless Capstone deems an alternative vote selection to be more advantageous to an Account, ISS has been authorized and instructed to vote all of Capstone's eligible proxy ballots in accordance with a recommendation resulting from the application of the ISS U.S. Sustainability Voting Guidelines (the "Sustainability Voting Guidelines"). Such guidelines represent an approach to corporate governance and proxy voting that aligns with the perspectives of mainstream investors that wish to incorporate ESG considerations in their investment decision-making processes to a greater extent. Taking ESG factors into consideration might not improve, and might detract from, the performance of an Account over any period of time. By considering ESG factors in proxy voting determinations, ISS might vote a proxy in a manner that it would not otherwise have done if ESG factors were not considered.

Notwithstanding its engagement with ISS, Capstone maintains full proxy voting discretion and authority over all voting securities held by the Accounts. While Capstone generally votes in accordance with the recommendations derived from the Sustainability Voting Guidelines, Capstone's portfolio managers are required to understand the implications of proxy contests on their positions. If Capstone's portfolio managers deem such a potential impact to be material to their investment thesis, they are required to select their votes in the best interest of the Account(s), notwithstanding the selection recommended by ISS. Further, in instances when ISS, by virtue of ISS policy, does not issue a recommendation, Capstone's portfolio managers will be required to select their votes in the best interest of the Account(s). Additionally, at times, Capstone may determine it is in the Account's best interest to abstain from exercising its proxy voting authority.

Upon request, Clients may obtain a copy of Capstone's Proxy Voting Policy and actual proxy voting records.



## Item 18 – Financial Information

Capstone is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its clients, and Capstone has not been the subject of a bankruptcy petition at any time during the past ten years.