

**Form ADV Part 2A**

**Krane Capital Management, LLC**

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**November 2023**

**This brochure provides information about the qualifications and business practices of Krane Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 933-0393. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Krane Capital Management, LLC is also available on the SEC’s website at <https://adviserinfo.sec.gov/>.**

**Krane Capital Management, LLC is an SEC-registered investment adviser. This registration does not imply a certain level of skill or training.**

## **ITEM 2. MATERIAL CHANGES**

There are no material changes, as this is Krane Capital Management, LLC's initial Form ADV Part 2A filing.

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#### **ITEM 4. ADVISORY BUSINESS**

Krane Capital Management, LLC (“KCM”), a Delaware limited liability company, is an SEC-registered investment adviser with its principal place of business in New York, NY. KCM was formed in 2023 and is principally owned by Krane Funds Advisors, LLC, an SEC-registered investment adviser.

KCM intends to provide discretionary investment management services to private investment vehicles (together, the “Fund”) whose investment objective is to seek capital appreciation. KCM invests primarily in California Carbon Allowances (“CCAs”) and derivatives and securities related thereto. CCAs are instruments created by the California Air Resources Board (“CARB”) as part of its cap-and-trade program, a market-based system intended to reduce greenhouse gas (“GHG”) emissions. This program is described further in Item 8 below.

KCM will provide subadvisory services to the Fund pursuant to the terms of the Fund’s operating agreements, a sub-advisory agreement, similar management agreements, and side letters with investors.

KCM does not tailor its advisory services to the requests or needs of individual Fund investors, and individual investors are not permitted to restrict the Fund’s investments. KCM will manage the Fund’s assets in accordance with investment restrictions contained within the Fund’s offering memorandum and operating agreements. For more detailed information regarding the Fund’s investment restrictions, please refer to the Fund’s offering memorandum, which is available to eligible Fund investors upon request to KCM.

Initially, KCM’s advisory services will be limited to its investments for the Fund. KCM may, in the future, organize additional investment vehicles or provide other investment advisory services that follow an investment strategy similar to or different from the Fund’s investment program. In such event, KCM will amend this brochure accordingly.

As of November 22, 2023, the Adviser does not manage any assets on a discretionary or non-discretionary basis, as the Fund has not yet commenced operations.

## ITEM 5. FEES AND COMPENSATION

The Fund will pay KCM an asset-based management fee and performance allocation as compensation for KCM's services to the Fund, including its services as bid adviser with respect to CCAs. The Fund will also pay its investment and operating expenses and will reimburse KCM and the investment adviser of the Fund for certain organizational expenses. Investors will be responsible for paying a portion of these expenses, as described below and in the Fund's offering memorandum.

### Management Fee

The Fund will pay KCM a monthly management fee (the "Management Fee") with respect to each investor. The annualized Management Fee payable by each investor will range from one-half percent (0.5%) to one percent (1%) of the value of such investor's capital account at the end of each month, depending on the class of shares that the investor purchases. The Management Fee shall be payable in arrears on the first day of each month via a deduction from each investor's capital account.

KCM reserves the right to waive all or part of the Management Fee payable with respect to any investor for any month.

### Performance Allocation

At the end of each fiscal year of the Fund, KCM will generally be entitled to receive a ten percent (10%) performance allocation (the "Performance Allocation") with respect to each investor. However, the Fund will not pay a Performance Allocation with respect to certain initial investors in the Fund.

The Fund's governing documents describe the methodology by which KCM will calculate the Performance Allocation.

### Early Redemption Deduction

Any redemptions of shares in the Fund that occur less than one (1) year following an investor's subscription for such shares will be subject to an early redemption deduction equal to two percent (2%) of the net asset value of the shares being redeemed. KCM may waive this deduction in its sole discretion.

### Fund Expenses

The Fund will pay the costs and expenses related to its investments and operations, including costs related to due diligence, financing, insurance, legal services, administration services, auditing, and tax preparation. Each investor in the Fund will bear its share of these costs through a deduction from its capital account. Expenses of the Fund attributable to a particular share class will be allocated to such class.

The Fund will also reimburse KCM and the Fund's investment adviser for organizational expenses incurred in connection with the startup, organization, and original offer and sale of the Fund. Such organizational expenses will be amortized in sixty (60) monthly installments beginning with the first month-end after the Fund commences operations.

KCM will pay for its own overhead expenses, including the salaries, bonuses, and benefits of its employees.

#### Brokerage Expenses

KCM and its supervised persons do not accept any compensation from third parties (*e.g.*, brokerage commissions) for the sale of securities or other investment products, including shares in the Fund.

For more information regarding KCM's brokerage practices and brokerage expenses, please see Item 12.

#### Side Letters

KCM has sole discretion to enter into side letter agreements with prospective or existing investors in the Fund whereby such investors may be subject to terms and conditions—such as a reduction or rebate in fees paid by the investor—that are more advantageous than those set forth in the Fund's offering memorandum. These modifications may be based on the size of the investor's investment in the Fund, an agreement by an investor to maintain its investment for a significant period, or an investor's similar commitment.

As of November 2023, KCM has not entered into a side letter agreement with any investors in the Fund, as the Fund has not commenced operations.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described in Item 5, KCM receives the Performance Allocation from the Fund. The Performance Allocation is a performance-based fee.

The receipt of the Performance Allocation rewards KCM for increases in the value of the assets of the Fund without directly penalizing KCM for losses, creating an incentive for KCM to invest and reinvest the assets of the Fund in a manner that may be riskier or more speculative than would be the case with a different fee arrangement.

The Performance Allocation does not apply to all classes of shares in the Fund. However, because KCM will manage the Fund's assets as a single pool of assets, all investors in the Fund are subject to the risk discussed in the previous paragraph, and not just those investors who invest in classes of shares that bear the Performance Allocation.

## **ITEM 7. TYPES OF CLIENTS**

KCM intends to offer its services to the Fund. KCM will not provide investment advice to individual Fund investors. The minimum initial investment in the Fund ranges from \$1,000,000 to \$20,000,000, depending on the class of shares that an investor purchases. However, KCM may, on behalf of the Fund, accept initial investments of lesser amounts in its sole discretion, subject to such minimum initial subscription amounts prescribed by applicable law.

The Fund offers shares pursuant to applicable exemptions from registration under the Securities Act of 1933, as amended (the “Securities Act”) and the Investment Company Act of 1940, as amended (the “1940 Act”). Shares are subject to restrictions on transferability. Investors in the Fund may be individuals or entities, but each investor must be an “accredited investor” as defined in Regulation D under the Securities Act and a “qualified purchaser” as defined in the 1940 Act. The Fund’s offering memorandum details additional investor suitability criteria.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

KCM believes that investors should have cost-effective and transparent tools for attaining asset class exposure. It applies its cross-asset class and systematic investing expertise to help investors obtain targeted exposure to the CCA market.

KCM focuses exclusively on investing for the Fund, which invests primarily in CCAs and derivatives and securities related thereto. The Fund's investment objective is to seek capital appreciation.

### Investment Strategy

CARB implemented the California cap-and-trade regulations to meet the State of California's regulations issued to address GHG and other emissions. A mandatory program that began in 2013, the California cap-and-trade program (the "Program") is a market-based system intended to reduce GHG emissions over time from multiple sources by setting a declining cap on GHG emissions. The California Legislature has extended the Program to 2030. To comply, large GHG emitters must submit Compliance Instruments to CARB based on their annual emissions. Compliance instruments include CCAs purchased at auction or in private sales, CCAs distributed to certain industry participants, and limited proportions of offset credits (collectively and together with other similar instruments, "Compliance Instruments").

The Fund intends to invest its assets in Compliance Instruments and related securities, derivatives, and other assets that provide economic exposure to Compliance Instruments. The Fund will invest in Compliance Instruments through a special purpose vehicle registered with CARB's Compliance Instrument Tracking System Service ("CITSS").

The Fund's investment objective is to seek capital appreciation. In seeking to achieve the Fund's investment objective, KCM intends to hold physical CCAs in long positions. KCM may also use CCA auctions, secondary market purchases of CCAs, and CCA futures contracts of varying maturities to gain exposure, with the intention of holding most of the position in physical CCAs. In addition, the Fund will invest and trade in any securities, commodities, interests, and other assets through which the Fund is able to gain economic exposure to CCAs, including, but not limited to, Compliance Instruments.

KCM's investment process typically involves an analysis of supply and demand forces that affect the value of CCAs and related instruments.

To manage liquidity or for other purposes, KCM may also sell CCAs on the secondary market and sell short futures contracts on CCAs.

In KCM's sole discretion, the Fund may hold up to one hundred percent (100%) of its assets in cash and cash equivalents at a depository bank: (i) for cash management or defensive purposes; (ii) to meet operational needs, maintain liquidity, and fund anticipated redemptions or expenses of the Fund; or (iii) for any other reason.

The Fund may be prevented from achieving its investment objective during any period in which the Fund's assets are not substantially invested in accordance with its investment strategy.

Although not the Fund's focus, the Fund may also invest in instruments other than those described above.

All investing involves a risk of loss that may be substantial and that investors in the Fund should be prepared to bear. The "Material Risks" section below discusses additional risks of an investment in the Fund.

### Material Risks

This section contains a summary of the material risks associated with the investment strategy outlined above. Unless stated otherwise, each risk applies to all investors in the Fund. *This is a summary only*, and prospective investors in the Fund should not rely solely on the descriptions provided below; prospective investors should also review the risks outlined in the Fund's offering memorandum.

### **Risks Related to Investments in California Carbon Allowances**

***California Carbon Allowance Risk.*** The Fund may purchase CCAs both through primary auctions conducted quarterly by CARB and through the secondary market. The Fund may also purchase long and sell short futures contracts on CCAs and options on futures contracts. Potential investors in the Fund should be aware that the CCA trading market is relatively new and untested and that there are uncertainties about how it will perform in periods of stress and market uncertainty. Therefore, there may be illiquidity, high price volatility, and a diminished demand for CCAs. There is no guarantee that the CCA market will continue to develop or evolve in a manner consistent with the Fund's investment thesis, and any changes in California's laws, regulations or policies related to the Program may negatively affect the Fund's investment program.

There is no guarantee that the Program will prove to be an effective method of reducing GHG emissions or mitigating local air pollution in California. As a result or due to other factors, the Program may be terminated or may not be renewed upon its expiration, and such actions are beyond the control of the Fund or KCM. Termination or suspension of the Program may negatively affect the price of CCAs and, as a result, the value of the Fund. The Program sets emission limits (*i.e.*, the right to emit a certain quantity of GHG emissions), which can be allocated or auctioned to the parties regulated under the Program up to the total emissions cap. This allocation may be larger or smaller than is needed to stabilize the price of CCAs and can lead to large price volatility, which may affect the value of the Fund.

In addition, there is no guarantee that the Program will continue to issue CCAs nor that the Program will continue to exist for the duration of the Fund. There is also a possibility that the Fund will be unable to maintain its eligibility to participate in the Program. As a result or due to other factors, CARB may determine that the Fund is not eligible to purchase or trade in CCAs or the Fund may not be permitted to acquire CCAs through auction or trade with other entities in the Program. If the Fund is unable to purchase or sell CCAs through the Program, the Fund's investment program

will not be able to achieve its investment objective, and the Fund could lose all or substantially all of the value of its investments.

***CITSS Risks.*** CITSS is the market tracking system that supports the implementation of the Program and similar programs for other jurisdictions. CITSS provides accounts for market participants to hold or retire CCAs or otherwise enter into transactions with other account holders. CITSS is used to register entities participating in the Program and track and record ownership of CCAs, thereby facilitating emissions compliance and supporting CCA market oversight. Any disruptions to CITSS, including disruptions resulting from cyberattacks or other cybersecurity incidents, could negatively affect the value of CCAs and, as a result, the Fund. KCM does not control the cybersecurity plans and systems put in place by CITSS, and service providers retained or engaged by CITSS to implement or manage such cybersecurity plans and systems may have limited or no indemnification obligations to third parties, including the Fund. Additionally, the trading, settlement, and safekeeping processes available in the CCA market are generally less developed than in traditional equity markets, and any transfers of CCAs may not be promptly processed by CITSS. Because of the inefficiencies and the risks underlying the Program's use of CITSS system, the CCA market may subject the Fund to additional risks, which can negatively impact the value of the Fund.

***Scientific Developments.*** Cap-and-trade programs and related markets are new and based on scientific principles that are subject to continuing examination and debate. Cap-and-trade programs have arisen in response to an international consensus view of the scientific evidence indicating a correlative relationship between the rise in atmospheric GHG concentrations and the rise in global temperatures and extreme weather events. If this consensus were to break down, cap-and-trade programs generally, the Program, the price of CCAs, or the value of the Fund may be negatively affected. There is also a consensus view among scientists that the rise in atmospheric GHG concentrations is caused by human activity, such as GHG emissions generated through the burning of fossil fuels. If there is a failure to maintain consensus or the scientific basis supporting the relationship or the acceptable level of atmospheric GHG concentrations is discredited or proven incorrect or inaccurate, it may negatively affect cap-and-trade programs, the Program, the price of CCAs, or the value of the Fund.

***Changes in Seasonal Demand and Other Weather-Related Events.*** In California, unpredictable demand for various industries' products and services can affect the value of CCAs. For example, milder winters or cooler summers can decrease demand for electric utilities and therefore require fewer CCAs to offset reduced production and GHG emissions by certain GHG-emitting companies. As a result, the value of the Fund may be negatively affected. In addition, adverse weather conditions and natural disasters (e.g., earthquakes, floods, wildfires) may affect the CCA market in a manner that results in a partial, temporary, or permanent suspension of GHG-related programs and regulation in California, including the Program, which would negatively impact the price of CCAs and the value of the Fund. Additionally, such disasters and the resulting damage could severely impact the ability of GHG-emitting companies to conduct their businesses in the manner normally conducted, lowering the demand for CCAs and thereby negatively affecting the Fund's investments.

***Financial Conditions of GHG-Emitting Companies.*** The financial condition and economic health of GHG-emitting companies and their ability to pass on the cost of CCAs to their customers may

affect the price of CCAs. If the price of CCAs can be passed on to the customer with minimal impact on consumer demand, such GHG-emitting companies may continue emitting GHGs and purchasing CCAs in the market or at auction at the prevailing price. If the price of CCAs cannot be passed on to consumers, emitters may be incentivized to reduce production of GHG emissions or reduce their operational footprint in California to decrease the need to purchase offsetting CCAs. Either case could adversely affect the price of CCAs and the value of the Fund.

***Lower-Emission Infrastructure and New Technologies.*** The demand for, and the market price of, CCAs could be adversely affected by any number of factors, including the implementation of lower-emission infrastructure, the invention of new technology that assists in the avoidance, reduction, or sequestration of emissions, the increased use of alternative fuels, a decrease in the price of conventional fossil fuels, and the increased use of renewable energy.

New technologies may arise that may diminish or eliminate the need for the Program and cap-and-trade programs generally. For example, a number of companies and agencies have invested significant capital in research and development necessary to commercialize large-scale carbon capture and storage (“CCS”) technology at coal-fired power plants and other energy producing plants. CCS deployment and the associated use of the carbon dioxide for enhanced oil recovery recently have become more commercially feasible with the revamping of the U.S. tax credit 45Q. Extensive CCS deployment would significantly reduce the amount of GHG emissions associated with traditional energy production and could cause the price of CCAs to drop significantly.

Additionally, the permitting and construction of a large number of nuclear power plants that could displace fossil-fuel generation would also significantly reduce GHG emissions from the energy industry.

These developments and others would have a negative impact on the CCAs and the value of the Fund. If the price of CCAs becomes too high, it may become more economical for California businesses to develop or invest in green or cleaner technologies, thereby decreasing the demand for CCAs and adversely affecting the value of the Fund. Similarly, if the price of CCAs falls too low, it may become more economical for California businesses to maintain or increase their GHG emissions and not develop or invest in green or cleaner technologies, thereby increasing the demand for CCAs. In either case, depending on the positions the Fund takes with respect to its CCA investments, such decreases or increases in demand for CCAs could adversely affect the value of the Fund.

***Political and Regulatory Developments.*** Political and regulatory developments in California may adversely affect the value of CCAs, including without limitation due to the revocation of CCAs or due to changes to or termination of the Program under which CCAs are traded. At present, California state law does not view the ownership of CCAs as a property right, and therefore, California would not be obligated under the Takings Clause of the California Constitution to compensate the holder of a CCA if it terminates the Program or otherwise revokes the CCAs.

Political events such as voter reaction to volatility in energy prices and perceptions of impacts of the CCA market on retail gasoline and diesel prices could lead to pressure on regulatory agencies to amend program rules, or legislative or ballot proposition efforts to amend or repeal the regulations underpinning the CCA market.

Furthermore, as other cap-and-trade programs and markets develop outside of California, new regulations with respect to these cap-and-trade programs and markets may arise, which could have a negative impact on the Program and the Fund.

In addition, general economic, political, or regulatory conditions, including the level of commitment to the goals of the Paris Agreement by both governments and corporations and other private and public initiatives intended to reduce GHG emissions, may have an impact on the Program, the price of and demand for CCAs, and the value of the Fund.

***Future Legislation and Extension of Cap-and-Trade Beyond 2030.*** AB 398, which the California Legislature passed in 2017, extends California's Program through 2030 but does not provide for the Program's existence past 2030. If the California Legislature does not extend the Program again before 2030, the Program could expire, along with the obligation on compliance entities to surrender CCAs. If the Program is extended through a rulemaking by CARB rather than legislation, the extension could be subject to legal challenge. In addition, future legislation could materially change the design and features of the Program, which could impact the supply or demand and prices of CCAs.

***Legal Challenges to Cap-and-Trade.*** The Program has been subject to legal challenges by various market participants and stakeholders. For example, in 2012, the Cap-and-Trade Program was challenged in a lawsuit by the California Chamber of Commerce on the basis that the Program violates the California Constitution because it is a tax and because it was not passed by a two-thirds supermajority of the California Legislature, which is required under the California Constitution for the adoption of new taxes. The lawsuit was dismissed by the District Court in Sacramento, whose ruling was upheld by the California Court of Appeals on April 6, 2017. The California Supreme Court then declined to hear an appeal of the case, ending the litigation. AB 398, which extends the Program through 2030, was passed by a two-thirds supermajority, thereby insulating the program from challenges on this particular ground (at least until 2030). However, other legal challenges could be brought, and elements of the Program, or the Program itself, could be struck down as a result of these challenges. Adverse court rulings or successful legal challenges could materially affect CCA prices.

***Regulation of CCAs, CCA Transactions, and CCA Derivatives.*** Although most market participants consider CCAs to be commodities largely unregulated in the U.S., this view has not been tested in the courts, and future litigation could result in a decision reaching a different conclusion. For example, certain purchase transactions of the Fund could be interpreted to be investment contracts, which would require the Fund to hold certain licenses that it does not have. CCA derivatives could also become subject to additional requirements and restrictions, such as a prohibition on CCA transactions outside of regulated exchanges or a limitation on CCA transactions to compliance entities only. If adopted, such requirements would significantly impede liquidity in the carbon market and potentially prevent the Fund from conducting its business.

***Non-Compliance, Enforcement, and Penalties.*** CARB maintains a vigorous enforcement program to ensure the timely, complete, and accurate reporting and verification of data submitted pursuant to mandatory reporting of GHG emissions. Under the Program, CARB may impose significant penalties on entities assessed for misreporting data in order to serve as a deterrent to misreporting annual GHG emissions. If an emitting entity covered by the Program fails to

surrender sufficient CCAs to cover its emissions, that entity is automatically assessed an “untimely surrender obligation” of four times whatever is still owed. Failure to surrender this untimely surrender obligation will also trigger enforcement action wherein each un-surrendered CCA constitutes a separate violation. There is a risk that emitting entities within the Program may not report their GHG emissions properly and that emitting entities subject to mandatory reporting of GHG emissions may not be registered with the Program and thus not reporting their GHG emissions, which may negatively affect the price of CCAs and, as a result, the value of the Fund.

Moreover, there may also be additional compliance requirements within the Program for the Fund that may not be readily known until it becomes an eligible entity or during its ongoing participation within the Program. There is no guarantee or assurance that these compliance requirements will be reasonable or manageable by the Fund or KCM, and they may result in the Fund’s non-compliance within the Program. If the Fund is fined or penalized by CARB for non-compliance with the Program’s requirements, the Fund may experience significant losses, as CARB may be permitted to cancel or otherwise invalidate some or all of the CCAs held by the Fund. If fines or other penalties for non-compliance are not enforced, incentives to purchase CCAs will deteriorate, which could result in a decline in the price of CCAs and a decrease in the value of the Fund.

***Linked Cap-and-Trade Programs.*** The Program is currently linked with a similar cap-and-trade program in Quebec and was previously linked with a cap-and-trade program in Ontario. The Government of Ontario unilaterally ended its cap-and-trade program, including its linkage with the Program, upon the election of a new government in 2018, which is expected to decrease the demand for CCAs through 2030 and therefore result in lower CCAs and prices. As with Ontario, it is possible that Quebec may withdraw from the program at some point in the future, which could have a material and adverse effect on the price of CCAs and the performance of the Fund. In addition, California’s Program may become linked with other jurisdictions in the future, such as Oregon or Washington, the Regional Greenhouse Gas Initiative, and such other jurisdictions could subsequently withdraw from California’s Program. Both the initial linkage and a potential subsequent withdrawal could have a significant and material impact on the supply and price of, and demand for, CCAs.

***Ongoing Demand for CCAs and Market Terms for CCA Contracts.*** The Fund’s investment objective and investment strategy are based on its understanding of and forecast of the carbon market going forward, including an expectation of robust demand for CCAs and the continued use of terms and conditions similar to those prevailing in the market today. However, neither the ongoing demand for CCAs nor the continued use of current contract terms is guaranteed. A significant drop in demand or change in the prevailing contract terms and conditions for CCA purchases could have an adverse effect on CCA prices or the Fund’s ability to carry out its investment strategy.

***Changes to GHG Emissions Trading Regulations.*** Climate change continues to attract considerable public and scientific attention, and as a result, numerous proposals have been made and are likely to continue to be made at the international, national, regional, and state levels of government to monitor and limit emissions of GHGs. Such initiatives are being considered or may be considered in the future through various means including, for example, United States treaty commitments or other international agreements, direct regulation, a carbon emissions tax, or cap-and-trade programs. The U.S. Congress has in the past considered legislation to reduce GHG

emissions. In addition, some states, like California, and foreign jurisdictions have, individually or in regional cooperation, imposed restrictions on GHG emissions under various policies and approaches, including establishing a cap on GHG emissions, requiring efficiency measures, or providing incentives for pollution reduction, the use of renewable energy sources, or the use of replacement fuels with lower carbon content.

Existing regulations include a number of design features that will have a significant impact on carbon market prices, including the number of CCAs available in the marketplace, the allocation of CCAs for free distribution, banking or holding CCAs through different compliance periods, limits on the use of CCAs for compliance obligations, the protocols pursuant to which CCAs are issued, and the circumstances under which CCAs may be invalidated. Changes to each of these design features would materially and adversely impact prices of CCAs and the ability of the Fund to meet its investment objective.

***Macroeconomic Trends Impacting Carbon Market Prices.*** Macroeconomic trends may have significant impacts on carbon markets. For example, as a result of a global economic downturn, industrial and utility emissions may drop significantly in the U.S. and Europe, which can negatively impact the demand for, and prices of, CCAs. Accordingly, although prices for CCAs in the U.S. are expected to continue to rise in the future, there is no such guarantee, and a decreased level of general economic activity may adversely impact CCA prices.

The adoption and implementation of, or modification to, any U.S. federal, state, or local regulations or foreign regulations imposing obligations on, or limiting emissions of, GHG emissions and related market structures, such as cap-and-trade programs, could have material adverse impact on the Fund's investments.

***Energy Sector Risk.*** The prices and performance of CCAs may be affected by developments in the energy sector, which includes energy commodities such as oil, gasoline, and other emissions credits. The prices of CCAs may be highly volatile and can change quickly and unpredictably due to a number of factors, including legislative or regulatory changes, adverse market conditions, increased competition affecting the energy sector, financial, accounting and tax matters, and other events that the Fund cannot control. In addition, the value of energy commodities may fluctuate widely due to changes in supply and demand. In Europe, for example, the price of carbon credits has been found to correlate to a certain extent with the price of natural gas. When gas prices increase, electric utilities typically will burn more coal (which emits more carbon dioxide than natural gas), which then puts upward pressure on carbon credit prices. Similarly, when there is significant rain, the price of carbon credits could decrease because utilities can run hydroelectric facilities, which do not emit GHGs. Based on the foregoing, there is a risk that the Fund's returns based on the trading of CCAs will be affected by the overall movement in the energy sector.

The energy sector is also usually subject to substantial government regulation and contractual fixed pricing, which may increase the cost of business and limit corporate earnings, and a significant portion of energy company revenues depends on a relatively small number of customers, including governmental entities and utilities.

***Liquidity Risks.*** The Fund's investments are subject to liquidity risk, which exists when an investment is or becomes difficult to purchase or sell at a reasonable price under certain market

conditions, such as during volatile markets or when trading in an asset or a market is otherwise impaired. Specifically, CCAs have no intrinsic value outside of the Program and, given the limited number of eligible entities in the Program, the Fund may be unable to sell CCAs or futures contracts at a reasonable price, which may cause the Fund to suffer significant losses and difficulties in meeting withdrawals. The Fund may also enter into CCA transactions that are particularly large, and if the CCA market becomes illiquid, it would reduce the returns of the Fund due to the inability to sell illiquid CCAs at an advantageous time or price. Other market developments or changes in which the Program is administered may cause the Fund's investments to become less liquid and subject to erratic price movements, and may also cause the Fund to encounter difficulties in honoring withdrawals in a timely manner. If a number of investments held by the Fund are suspended from trading or become illiquid, such as due to any Program limits, it may have a cascading effect and cause the Fund to sell CCAs or futures contracts at a less than reasonable price.

***Concentration Risk.*** Under ordinary circumstances, the Fund is intended to invest directly in CCAs and in other assets providing economic exposure to CCAs. Due to this concentration, the Fund is subject to loss due to adverse occurrences that may affect the Program, CITSS, and the CCA market, whereas other cap-and-trade programs outside of California may be unaffected. The Fund's concentration in CCAs may result in the Fund's tending to be more volatile than other emissions credit-related investment funds and may cause the value of the Fund's investments to go up and down more rapidly. Additionally, there may be a smaller number of GHG-emitting companies or other eligible entities in the Program that may represent a large portion of the CCA market, and any decreases in their demand of CCAs would have a negative impact on the Fund's CCA investments.

***Geographic Focus Risk.*** The Fund's investments are focused solely on CCAs publicly issued under the Program, and therefore the Fund may be susceptible to adverse market, political, regulatory, and geographic events affecting the State of California. Such geographic focus also may subject the Fund to a higher degree of volatility than a more geographically diversified fund investing in emissions credits of other various cap-and-trade programs.

## **Other Investment Risks**

***Risks of Investments Generally.*** Investing involves the potential loss of capital. No guarantee or representation is made that the Fund's investment program will be successful. The investment program may involve, without limitation, risks associated with limited diversification, leverage, interest rates, volatility, tracking risks in hedged positions, borrowing risks in short sales, credit deterioration or default risks, systems risks, and other risks inherent in the Fund's activities. Certain investment techniques of KCM can, in certain circumstances, magnify the impact of adverse market moves to which the Fund may be subject.

KCM's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete, or current, and such information may be misinterpreted. Even if KCM's risk management approaches are fully effective, it cannot

anticipate all risks that it may face. If KCM fails to identify and adequately monitor and manage all of the risks associated with its trading activities, the Fund may suffer losses.

**Highly Volatile Markets.** The prices of assets in which the Fund may invest can be highly volatile. Price movements of derivative contracts in which the Fund may be invested are influenced by, among other things, interest rates; changing supply and demand relationships; trade, fiscal, monetary, and exchange control programs and policies of governments; and national and international political and economic events and policies. The Fund is subject to the risk of failure of any of the exchanges on which its positions trade or of their clearinghouses. Accordingly, investors in the Fund should understand that the results of a particular period will not necessarily be indicative of results in future periods. Changes in the degree of volatility of the market from KCM's expectations may produce material losses to the Fund.

**Futures Contract Risk.** The Fund may invest in futures contracts. The primary risks associated with the use of futures contracts include: (i) an imperfect correlation between the change in market value of the reference asset and the price of the futures contract; (ii) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures contract when desired; (iii) losses caused by unanticipated market movements, which are potentially unlimited; (iv) the inability to predict correctly the direction of market prices, interest rates, currency exchange rates and other economic factors; and (v) if the Fund, it may have to sell securities or financial instruments from its portfolio to meet daily variation margin requirements, which may lead to the fund or account selling securities or financial instruments at a loss. As a futures contract approaches its settlement date, KCM may sell that futures contract and reinvest the proceeds in a similar contract with a more distant settlement date. This process is referred to as "rolling" a futures contract. The successful use of such a strategy depends upon KCM's skill and experience. Although KCM will attempt to roll from an expiring futures contract to another contract that it believes will generate the greatest yield, a client nevertheless may incur a cost to "roll" the contract. In a commodity futures market where current month expiring contracts trade at a lower price than next month's contract, a situation referred to as "contango," then, absent the impact of the overall movement in commodity prices, the Fund may experience an adverse impact because it would be selling less expensive contracts and buying more expensive contracts. In the event of a prolonged period of contango, and absent the impact of rising or falling commodity prices, there could be a significant negative impact on Fund when it "rolls" its futures contract positions.

**Commodity Interest Positions May be Illiquid.** The Fund may not always be able to liquidate its commodity interest positions in its desired price, particularly with respect to its OTC derivatives. In particular, it may be difficult to execute a trade at a specific price when there is a relatively small volume of buy and sell orders in a market. A market disruption, such as the financial market turmoil of 2007-2009, can also make it difficult and costly to liquidate a position. Alternatively, limits imposed by futures exchanges or other regulatory organizations, such as speculative position limits and daily price fluctuation limits, may contribute to a lack of liquidity with respect to some commodity interests. Moreover, in the OTC derivatives markets, liquidation may occur only upon contract maturation or when the contract is assigned to another party, which is likely to present additional costs.

**Counterparty Risk.** Some of the markets in which the Fund invests may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not

subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. The Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

Moreover, the Fund’s evaluation of the creditworthiness of its counterparties, may prove insufficient. The lack of any meaningful or independent evaluation of the financial capabilities of the Fund’s counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund.

***Unexpected Cash Flow Need May Cause Positions To Be Closed at Substantial Losses.*** Futures contract gains and losses are marked-to-market daily for purposes of determining margin requirements. [Option positions generally are not marked-to-market daily, although short option positions will require additional margin if the market moves against the position.] Due to these differences in margin treatment between futures and options, there may be periods in which positions on both sides must be closed down prematurely due to short-term cash flow needs. If, for example, this occurs during an adverse move in a spread or straddle relationship, then a substantial loss could occur.

***Uncertain Exit Strategies.*** Due to the illiquid nature of many of the positions which the Fund is expected to acquire, KCM will be unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available. Exit strategies that appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political, or other factors.

***Cash Management Investments.*** To manage cash on a temporary basis, the Fund may invest in certain short-term instruments that provide returns in the form of fixed periodic payments and the return of principal at maturity. The value of such investments will change as the general levels of volatility and interest rates fluctuate. When interest rates decline, the value of such investments can be expected to rise, and when interest rates rise, the value of such investments can be expected to decline. To the extent the Fund invests in money market funds, the Fund may not participate in market advances or declines to the same extent that it would if the Fund were more fully invested. Money market funds are subject to fees and expenses that will reduce the returns on any holdings in such funds. Cash, cash equivalents, and money market fund shares may be not insured and therefore may be subject to loss.

***U.S. Government Securities Risk.*** As part of its cash management strategy, the Fund may invest in U.S. Government securities. Treasury obligations may differ in their interest rates, maturities, times of issuance and other characteristics. Obligations of U.S. Government agencies and authorities are supported by varying degrees of credit but generally are not backed by the full faith and credit of the U.S. government. No assurance can be given that the U.S. government will provide financial support to its agencies and authorities if it is not obligated by law to do so. Certain

of the government agency securities the Fund may purchase are backed only by the credit of the government agency and not by full faith and credit of the U.S. government.

***Reliance on Valuation Information from Personnel and Third Parties.*** To value the assets and liabilities of the Fund, KCM may rely on information provided by personnel or outside parties. Such persons may provide inaccurate, incomplete, out of date, or otherwise unreliable information. In the case of persons who receive compensation based on the performance of certain investments, such persons may be motivated to provide incorrect valuation information to receive increased compensation. KCM will implement procedures to safeguard against the use of inaccurate information but may be unable to detect every error contained in the valuation information. If the information received by KCM is inaccurate or unreliable, the valuation of the Fund's assets and liabilities may be inaccurate.

### **Additional Risks**

***No Operating History.*** The Fund does not have an operating history upon which prospective investors can evaluate their potential performance. The past performance of KCM's personnel is not necessarily indicative of the future results of the Fund or of an investment in the Fund. There can be no assurance that the Fund will achieve its investment objective.

***Operational Risk.*** The Fund depends on KCM and the investment adviser to the Fund to develop the appropriate systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for, or other similar disruption in the Fund's operation may cause the Fund to suffer financial loss, the disruption of its businesses, liability to clients or third parties, or regulatory intervention.

***Systems Risks.*** The Fund depends on KCM to develop and implement appropriate systems for the Fund's activities. The Fund relies extensively on computer programs and systems to trade, clear and settle asset transactions, to evaluate certain assets based on real-time trading information, to monitor its portfolios and net capital, and to generate risk management and other reports that are critical to oversight of the Fund's activities. In addition, certain of KCM's operations interface with or depend on systems operated by third parties, including market counterparties and their sub-custodians and other service providers, and KCM may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures, or interruptions, including, but not limited to, those caused by computer "worms," viruses, and power failures. Any such defect or failure could have a material adverse effect on the Fund. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the Fund's ability to monitor its investment portfolios and their risks.

***Management Risk.*** The ability of the Fund to meet its investment objective is directly related to KCM's investment management of the Fund's portfolio. The value of an investor's investment in the Fund may vary with the effectiveness of KCM's research, analysis and asset allocation among portfolio instruments. If KCM's investment strategies do not produce the expected results, a investor's investment could be diminished or even lost. There can be no assurance that the investment professionals associated with KCM will continue to be associated with KCM

throughout the life of the Fund. In addition, these professionals likely will have demands on their time for the investment, monitoring and other functions of other funds and accounts managed or advised by KCM or its affiliates.

***Cyber-Security Risk.*** KCM and its service providers may be prone to operational and information security risks resulting from cyber-attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information or various other forms of cyber security breaches. Cyber-attacks affecting KCM or a custodian, transfer agent, intermediaries and other third-party service providers may adversely impact KCM or its clients. For instance, cyber-attacks may interfere with the processing of transactions, impact KCM's ability to calculate NAV, cause the release of private shareholder information or confidential business information, impede trading, subject KCM to regulatory fines or financial losses, and cause reputational damage. A client may also incur additional costs for cyber-security risk management purposes. While KCM's service providers have established business continuity plans, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified. Furthermore, KCM cannot control the cyber security plans and systems put in place by its service providers or any other third-parties whose operations may affect KCM or its clients. Similar types of cyber-security risks are also present for issues or securities in which KCM may invest, which could result in material adverse consequences for such issuers and may cause the Fund to lose value.

***Market Risk.*** The value of investments in the Fund's portfolio may fluctuate, sometimes rapidly or unpredictably, as the markets fluctuate. The values of the Fund's holdings could decline generally or could underperform other investments. In addition, there is a risk that policy changes by the U.S. Government, Federal Reserve, and/or other government actors could cause volatility in global financial markets and negative sentiment, which could have a negative impact on the Fund and could result in losses.

Geopolitical and other risks, including environmental and public health risks, may add to instability in world economies and markets generally. Changes in value may be temporary or may last for extended periods. Further, the Fund may be susceptible to the risk that certain investments may be difficult or impossible to sell at a favorable time or price. Market developments may also cause investments to become less liquid and subject to erratic price movements.

## **ITEM 9. DISCIPLINARY INFORMATION**

There have been no material legal or disciplinary investment-related events involving KCM or any management person employed by KCM.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### Affiliated Entities

KCM is affiliated with the following entities due to common ownership and/or control.

***Krane Funds Advisors, LLC.*** Krane Funds Advisors, LLC (“KFA”) (CRD # 157103) is an SEC-registered investment adviser that, as of November 22, 2023 sponsors and manages thirty publicly traded ETFs that are registered under the 1940 Act. KFA also manages nine Undertakings for Collective Investments in Transferable Securities (UCITS) vehicles that are listed on international stock exchanges such as the Irish Stock Exchange, the London Stock Exchange, the Amsterdam Stock Exchange, the Italian Stock Exchange, and the German Stock Exchange.

KFA is also registered as a commodity pool operator (CPO) with the National Futures Association (NFA ID 0475512).

***Gobe Wealth Management, LLC.*** Gobe Wealth Management, LLC (“Gobe”) (CRD # 288711) is a Delaware limited liability company and an SEC-registered investment adviser. Gobe offers investment advisory services that include financial planning to portfolio management. Gobe’s primary business is to manage assets for institutional clients, high net worth clients, and retail investors by providing discretionary asset allocation services through separately managed accounts. Gobe may also provide nondiscretionary services to clients.

***CICC US Securities, Inc.*** CICC US Securities, Inc. (“CICC Securities”) is an indirect, majority-owned subsidiary of CICC, a publicly-traded Chinese financial services company and an affiliate of KCM. CICC Securities is a broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Authority (FINRA). CICC Securities does not provide any brokerage services to KCM or the Fund.

### Other Investment Advisers

KCM does not recommend or select other investment advisers for clients.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

KCM has adopted a code of ethics (the “Code of Ethics”) in accordance with Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), which is applicable to all of its employees, members, managers, and officers (collectively, “Access Persons”). The Code of Ethics sets forth certain key guidelines and specifies the responsibility of all Access Persons to act in accordance with their fiduciary duty to the Fund and to comply with applicable federal and state laws and regulations. KCM and its Access Persons owe a duty of loyalty, fairness, and good faith to all clients and have an obligation to adhere not only to the specific provisions of the Code of Ethics, but also to the general principles that guide the Code of Ethics. The Code of Ethics precludes activities that may lead to or give the appearance of conflicts of interest, insider trading, and other forms of prohibited or unethical business conduct. KCM and its Access Persons are prohibited from engaging in any fraudulent, deceptive, or manipulative conduct.

All Access Persons must acknowledge the terms of the Code of Ethics when they begin working for KCM and thereafter if KCM materially amends the Code of Ethics. They must also periodically certify to their compliance with the Code of Ethics. The Code of Ethics further requires all Access Persons of KCM to report potential violations of the Code of Ethics to KCM’s Chief Compliance Officer (“CCO”).

KCM will provide a copy of the Code of Ethics to any investor or prospective investor in the Fund upon request. Investors or prospective investors may request a copy of the Code of Ethics by contacting KCM at the telephone number on the cover page of this brochure.

### Personal Securities Trading Policies

KCM maintains personal securities trading policies and procedures in the Code of Ethics to address the conflicts of interest that arise with respect to personal account transactions of its Access Persons. The Code of Ethics places restrictions on personal trades by Access Persons, including by requiring that they disclose their personal securities holdings and transactions, as well as by requiring pre-clearance by the CCO of certain types of personal securities transactions.

### Treatment of Material, Non-Public Information

KCM also maintains insider trading policies and procedures that are designed to prevent the misuse of material, non-public information (“MNPI”). The policies and procedures prohibit KCM and its personnel from trading for themselves, or recommending trading, in securities of a company while in possession of MNPI about such company, and from disclosing such information to any person not entitled to receive it.

### Principal Transactions

As a matter of policy, KCM does not engage in principal transactions.

### Conflicts of Interest

KCM intends to use its best judgment in evaluating and resolving conflicts of interest. It may manage conflicts by:

- segregating responsibilities of individuals or causing any affected individual to appropriately recuse himself or herself from any relevant matter;
- seeking to ensure that the interests of KCM and the Fund are aligned to the greatest extent practicable and to minimize non-conforming treatment or the creation of differential interests in the structuring of the applicable arrangement;
- acting in a manner prescribed in the Fund's offering memorandum and governing documents; or
- disclosing the existence of such conflicts in the Fund's offering memorandum.

On any issue involving actual conflicts of interest, KCM will be guided by its good faith discretion.

For additional information about certain conflicts of interest associated with an investment in the Fund, prospective investors should review the Fund's offering memorandum.

## ITEM 12. BROKERAGE PRACTICES

### Selection of Broker-Dealers

KCM has discretion over the purchase and sale of securities and derivatives instruments (including the size of such transactions) for the Fund. KCM also has the authority to determine the brokers or dealers that it uses for a securities or derivatives transaction.

In placing each transaction for the Fund involving a broker or dealer, KCM will seek “best execution” of the transaction. “Best execution” means obtaining the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security) for the Fund, taking into account the circumstances of the transaction and the reputability and reliability of the executing broker or dealer.

In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, the Fund’s portfolio managers take into account all factors that they deem relevant to the broker’s or dealer’s execution capability, including the broker’s or dealer’s:

- quality of execution (accurate and timely execution, clearance, and fair error/dispute resolution);
- reputation, financial strength, integrity, and stability;
- block trading and block positioning capabilities;
- willingness to execute difficult transactions;
- willingness and ability to commit capital;
- access to underwritten offerings and secondary markets; and
- ongoing reliability.

KCM also considers:

- the overall costs of a trade (*i.e.*, net price paid or received), including commissions, mark-ups, mark-downs, or spreads in the context of KCM’s knowledge of negotiated commission rates currently available and other current transaction costs;
- the nature of the security and the available market makers;
- the desired timing and size of the transaction;
- the confidentiality of trading activity; and
- any market intelligence regarding trading activity.

To the extent consistent with achieving best execution, KCM may also consider other business a particular broker or dealer may have done with KCM, such as identifying investment opportunities or potential investors or performing investment banking services. When purchasing or selling over-the-counter securities with market makers, KCM generally seeks to select market makers it believes to be actively and effectively trading the security being purchased or sold.

In selecting or recommending broker-dealers, KCM does not consider any client referrals it may receive from a broker-dealer or third party.

The Fund's portfolio managers and KCM's CCO are responsible for periodically determining broker-dealer eligibility and for reviewing broker-dealer trading volumes, prices, commissions, other transaction costs, and the overall quality of execution, among other things.

#### Research and Other Soft Dollar Benefits

When KCM believes that one or more broker-dealers is capable of providing the best combination of price and execution, it does not select a broker-dealers based solely on the lowest commission rate available for a particular transaction. In such cases, KCM pays a higher commission than otherwise obtainable from other brokers in return for brokerage research services provided to KCM consistent with Section 28(e) of the Securities Exchange Act of 1934, as amended. Section 28(e) provides that KCM may cause the Fund to pay a broker-dealer a commission for effecting a transaction in excess of the amount of commission another broker-dealer would have charged as long as KCM makes a good faith determination that the amount of commission is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer. If KCM obtains brokerage and research services that it otherwise would acquire at its own expense, KCM may have an incentive to place a greater volume of transactions or pay higher commissions than would otherwise be the case.

The types of products and services that KCM may obtain from broker-dealers through such arrangements include, but are not limited to, research reports and other information on the economy, industries, sectors, groups of securities, individual companies, statistical information, political developments, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance and other analysis, or brokerage services such as post-trade services including communication of routine settlement instructions to custodian banks and clearing agents. Any advisory or other fees paid to KCM are not reduced as a result of the receipt of brokerage and research services.

In some cases, KCM receives a product or service from a broker beyond brokerage services that has both a "research" and a "non-research" use. When this occurs, KCM makes a good faith allocation between the research and non-research uses of the product or service. The percentage of the service that is used for research purposes is paid for with brokerage commissions, while KCM uses its own funds to pay for the percentage of the service that is used for non-research purposes. In making this good faith allocation, KCM faces a potential conflict of interest, but KCM believes that its allocation procedures are reasonably designed to appropriately allocate the anticipated use of such products and services to research and non-research uses.

#### Directed Brokerage

KCM does not recommend, request, or require that the Fund direct it to execute transactions through a specific broker or dealer, nor does it permit the Fund to direct brokerage.

### Trade Aggregation and Allocation

Initially, the Fund will be KCM's sole client. Accordingly, KCM will have no opportunity to aggregate the purchase or sale of securities for the Fund and other client accounts. Without such trade aggregation, the Fund could pay increased brokerage commissions.

KCM will also have no need to allocate investment opportunities among the Fund and other client accounts, as there are no other client accounts.

### Principal Transactions

KCM will not seek to execute transactions on behalf of the Fund when KCM or its related person acts in a principal capacity.

### Trade Errors

On occasion, KCM may make an error in executing securities transactions for the Fund. For example, KCM may erroneously purchase a security for the Fund instead of selling it or enter a trade for an incorrect number of shares. In these situations, KCM will adhere to trade error policies and procedures that generally seek to rectify the errors by placing Fund in a similar position as it would have been in if there had been no error. However, to the extent that an error results in an increase in the Fund's net asset value, the Fund will retain such increase. Depending on the circumstances, and subject to applicable legal and contractual requirements, KCM may take various corrective steps, including canceling the trade, correcting an allocation, or reimbursing the Fund. KCM generally does not consider errors that are corrected prior to settlement, errors committed by brokers or other third parties, or errors related to reporting or systems implementation to be trade errors.

### **ITEM 13. REVIEW OF ACCOUNTS**

#### **Oversight**

The Fund's portfolio managers and other KCM investment professionals review its portfolio, including the assets in its CITSS account, regularly. A number of factors, including macroeconomic events or policies, political occurrences, weather patterns, natural disasters, research or technological developments, company-specific events, public disclosures, and general market price movements may trigger consideration of a new investment or review of an existing position.

#### **Reporting**

Investors in the Fund will receive a copy of the Fund's audited financial statements within one hundred twenty (120) days, as well as quarterly unaudited performance reports within sixty (60) days of the end of each of the Fund's first three fiscal quarters. KCM may provide additional information relating to the Fund to one or more investors as it deems appropriate.

#### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

KCM does not directly or indirectly compensate any third party for client or investor referrals. KCM may receive introductions to investors through third-party distributors, although no such introductions have occurred as of the date of this brochure. KCM does not pay any additional fees as a result of these introductions. However, KCM may have an incentive to select or use a distributor based on receiving investor referrals from that counterparty.

Other than as described above, KCM does not receive any economic benefits from non-clients in connection with the provision of investment advice to the Fund.

## **ITEM 15. CUSTODY**

Rule 206(4)-2 under the Advisers Act (the “Custody Rule”) imposes certain requirements on SEC-registered investment advisers that have custody of client funds or securities. KCM will not have “custody” of the funds and securities of the Fund as defined in the Custody Rule.

However, KCM maintains custody of CCAs, which are not securities, via a CITSS account. CITSS is a management and tracking system for accounts and Compliance Instruments issued through participating Western Climate Initiative cap-and-trade programs, including the Program. CITSS is administered by the Western Climate Initiative, Inc., a non-profit corporation formed to provide administrative and technical services to support the implementation of state and provincial greenhouse gas emissions trading programs.

## **ITEM 16. INVESTMENT DISCRETION**

KCM intends to provide investment management services to the Fund on a discretionary basis pursuant to a subadvisory agreement and other contractual undertakings. Although KCM will not require specific consent from the Fund or its investors to perform the Fund's day-to-day investment operations, it will be required to comply with certain investment guidelines and restrictions outlined in the Fund's offering memorandum. It will also be required to comply with restrictions on its investments of CCAs imposed by an independent director of the Fund's CITSS account.

KCM does not intend to provide non-discretionary investment advisory services to the Fund.

KCM will provide investment advice directly to the Fund and not to individual investors in the Fund.

## **ITEM 17. VOTING CLIENT SECURITIES**

In accordance with Rule 206(4) under the Advisers Act, KCM has established written policies and procedures governing any proxy voting activities on behalf of the Fund. To the extent that KCM invests in securities on behalf of the Fund, KCM will seek to vote in the best interest of the Fund by maximizing the economic value of the Fund's portfolio. KCM does not permit voting decisions to be influenced in any manner that is contrary to, or dilutive of, this guiding principle.

Generally, KCM intends to vote in favor of routine corporate housekeeping proposals. KCM generally intends to vote against proposals that make it more difficult to replace members of the issuer's board of directors. Investors in the Fund may not direct KCM's vote in any particular solicitation.

KCM reserves the right to abstain from voting on any matter if, in its judgment, the costs associated with such voting outweigh the benefits to the Fund or if the circumstances make such an abstention or withholding otherwise advisable.

Conflicts of interest may arise in the voting of proxies between the interests of the Fund and the interests of KCM and its employees. If KCM becomes aware of any actual or potential conflict of interest relating to a particular proxy voting matter, the CCO will review and resolve such conflict of interest in accordance with KCM's policies and procedures.

Investors in the Fund may: (i) obtain information from KCM about how it voted proxies for the Fund, and (ii) request a copy of KCM's proxy voting policies and procedures by contacting KCM at the telephone number on the cover page of this brochure.

## **ITEM 18. FINANCIAL INFORMATION**

KCM does not have any financial condition that would impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.