

# FORM ADV Uniform Application for Investment Adviser Registration

## Part 2A: Investment Adviser Brochure

### Item 1: Cover Page

**S E E L A U S**

ASSET MANAGEMENT

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Firm CRD #: 149582

SEC #: 801-44641

July 9, 2019

Seelaus Asset Management, LLC (“Seelaus AM” or “the Firm”) is a SEC registered investment advisor (“RIA”) that specializes in fixed-income and equity portfolio management and Exchange Traded Fund (“ETF”)-based tactical asset allocation strategies. Seelaus AM works with private clients, family offices, foundations, pension plans and other institutional investors. Registration with the SEC does not imply any certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Seelaus AM. If you have any questions about the contents of this brochure, please contact Investor Relations at [ir@seelausam.com](mailto:ir@seelausam.com) or (855) 212-0955. 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 Seelaus AM is also available on the SEC’s website which may be found at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 Material Changes

Summary of material changes since last annual update dated March 31, 2019:

1. On June 4, 2019 Seelaus Asset Management, LLC announced the acquisition of Sterling Wealth Advisors LLC, an MBS-focused, registered investment advisory firm based in Red Bank, NJ. Three individuals from Sterling Wealth Advisors have joined Seelaus Asset Management as Portfolio Managers. As a result of this acquisition, Seelaus AM will offer an MBS strategy to clients. The transaction closed on 6/25/2019 and increased Seelaus Asset Management's AUM by \$92.2 million.
2. In June 2019, Seelaus Asset Management, LLC opened a branch office located at 150 East Palmetto Park Road, Suite 800, Boca Raton, FL 33432.
3. On July 1, 2019 Christina Goulding was promoted to Chief Operating Officer of Seelaus Asset Management. Ms. Goulding joined Seelaus Asset Management in February, 2019 as a Managing Director.

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#### **Item 4 Investment Advisory Business**

Seelaus AM is a SEC registered investment advisor (RIA) firm that specializes in both fixed income and equity portfolio management and ETF-based tactical asset allocation strategies for high net worth individuals, family offices, foundations, pension plans, and other institutional investors. Seelaus AM was established in May 2009. Seelaus AM is wholly owned by R. Seelaus & Co., Inc.

Seelaus AM provides asset management and financial planning services. Neither the Firm nor its Investment Advisor Representatives (IAR's) provide legal or tax advice of any kind. Seelaus AM is a Registered Investment Advisor (RIA) that develops investment strategies and then executes investment decisions, on behalf of its clients, on both a discretionary and a non-discretionary basis.

Seelaus AM's investment philosophy is based on two principal beliefs; that risk management leads to superior risk-adjusted returns over time, and that asset allocation is the most important investment decision.

Seelaus AM has expertise in managing taxable and tax-exempt municipal bond portfolios, mortgage backed securities (MBS) portfolios and in developing a variety of strategies across equity and fixed income markets. Seelaus AM offers a disciplined value-oriented style of investment management, which spans across multiple investment objectives and strategies. The Firm uses a "top-down" – "bottom-up" investment approach that seeks to identify market sectors expected to have the best return potential (top-down) and then to identify the individual securities within those sectors that have the potential to generate superior returns (bottom-up).

Seelaus AM provides personal financial planning to individuals, families and their related entities, trusts, estates and family businesses. Seelaus AM works with clients to define financial objectives and to develop strategies for reaching those objectives, some of which may include: identification of financial problems, cash flow and budget management, tax planning, risk exposure review, investment management, education funding, retirement planning, estate planning, charitable goals, special needs planning, family business succession issues, fringe benefits, and/or other issues specific to the client. Seelaus AM serves as advisor and general partner to six private funds; Edgewood Partners, LP, Navesink River Partners, LP, Sheraton Partners, LP, Ocean Partners, LLC, Sunnymeach Partners, LLC and to the Granite Springs Total Return Fund, a long-only credit fund.

Seelaus AM customizes investment portfolios to meet the needs of its clients. Portfolio investment objectives are defined at the outset of a client's relationship with the Firm. Then, appropriate investment strategies are developed based on the knowledge of each client's income needs, time horizon and risk tolerance. Clients may impose restrictions on investing in certain securities or types of securities. Seelaus AM communicates with clients on a regular basis to review investment objectives, and changes are made to their respective investment plans as necessary.

Seelaus AM offers an automated advisory program called GAISER. This program is a passive investment program using primarily ETF based portfolios with a fee of 0.80% of AUM (can be negotiated at the discretion of the firm). The minimum account size for this program is \$10,000.

As of June 30, 2019, Seelaus AM managed approximately \$418 million in discretionary client accounts, and approximately \$18 million in non-discretionary client accounts.

## Item 5 Fees and Compensation

The specific manner in which fees are charged by Seelaus AM is established in a client's written investment advisory contract ("IAC"). The basic advisory fee (other than a GAISER type account) is 1.5% of assets under management paid quarterly in advance. Investment advisory fees are negotiable. If a client closes an account before the end of the quarter, the unused fee is prorated and refunded, if a client opens an account a pro-rated fee is assessed. The specific manner in which fees are charged by Seelaus AM's GAISER clients is established in the client's written IAC. The basic advisory fee is 0.8% of assets under management paid quarterly in advance. If a client closes an account prior to the end of a quarter, the unused fee is refunded on a prorated basis.

In connection with a financial planning engagement, the service is billed at an hourly rate of \$250 per hour, or at a fixed rate. Each limited partnership entity managed by Seelaus AM has a fee structure detailed in its agreement and ranges from 0.25% to 0.50% of net asset value on a quarterly basis and may include incentive fee-based performance (10% to 20% annually). Fees are charged in advance on a quarterly basis.

For separately managed accounts, fees are negotiable, and are expected to range from 0.5% to 2.0% annually of assets under management depending upon the account size and asset classes managed. Seelaus AM may accept performance-based fees for its advisory services, provided such fees meet the requirements of Rule 205-3 of the Investment Advisers Act of 1940.

Seelaus AM deducts advisory fees directly from client's accounts or clients may choose to be billed separately for fees incurred. Clients may choose either method of payment. Seelaus AM is deemed to have custody in accounts where advisory fees are directly deducted from client's accounts. Fees are either deducted or billed, on a quarterly basis, in advance. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter with the exception of de minimis (less than \$1,000) contributions and withdrawals. Accounts initiated during a calendar quarter will be charged a prorated fee. All investment advisory fees are negotiable.

Clients may pay other fees in connection with our advisory services, such as custodian fees, mutual fund expenses, wire transfer and electronic fund fees, transfer taxes, and state and/or federal fees and taxes on partnership interest. Clients will also incur brokerage and other transaction costs. These costs are separate from any fees paid to Seelaus AM.

Seelaus AM reserves the right to waive all or any portion of its management or incentive fees with respect to any of its clients, whether separately managed or members of a limited partnership managed by the Firm. Any such waiver is made on a facts and circumstances basis at any time and may be on a one-time or on a permanent basis.

Investment advisory fees are billed quarterly, in advance. Clients may terminate their contracts with five days' written notice. Refunds will be given on a prorated basis, based on the number of days remaining in a quarter at the point of termination. Clients may terminate their contracts without penalty, for full refund, within five (5) business days of signing the advisory contract.

Certain management personnel of Seelaus AM, in their individual capacities, are also agents for RSC Financial Products LLC, an affiliated insurance agency. As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing insurance product transactions on behalf of clients. Certain personnel of Seelaus AM, in their individual capacities, are also registered representatives with R. Seelaus & Co., LLC, an affiliated broker dealer. As such, these individuals are able to receive separate, yet customary commission compensation resulting from securities transactions on behalf of clients. Clients of Seelaus AM are not under any obligation to engage these individuals when considering implementation of insurance product recommendations or in securities transactions.

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

In some cases, Seelaus AM has entered into performance fee arrangements with qualified clients. Such fees are subject to independent negotiation with each client depending on the facts and circumstances of each client relationship. Seelaus AM will structure any performance or incentive fee arrangement subject to 205(a)(1) of the Investment Advisors Act of 1940 (“The Advisors Act”) and may rely on available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients’ assets for the calculation of performance-based fees, Seelaus AM shall include realized and unrealized capital gains and losses. Performance-based fee arrangements may create an incentive for Seelaus AM to purchase, sell, or short investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create incentives to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities. Seelaus AM has implemented procedures designed to ensure that all clients are treated fairly and equally to the extent possible and practical, and to prevent this conflict from influencing the allocation of investment opportunities among clients. Seelaus AM provides asset management services on both asset fee-based and performance fee-based compensation structures. All firms providing asset management services for multiple accounts have the inherent conflict of interest that results from not being able to execute buy and sell orders simultaneously at the same price. We utilize block or bunch trade orders to minimize dispersion and the inherent conflict of trading for multiple accounts.

The conflict between having accounts with performance-based compensation fees structures and flat asset-based fees is also minimized by bunching trades amongst accounts with similar objectives and liquidity. Seelaus AM also tracks performance dispersion on a monthly basis between accounts to ensure all accounts are being treated fairly and equitably to the extent possible and practical.

## **Item 7 Types of Clients**

Seelaus AM clientele consist of high net worth individuals, family offices, trusts, private investment partnerships for individuals and institutions, foundations, endowments, pension plans and other institutional investors, including other investment advisors. The Firm provides separate account management for individual and institutions.

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

Seelaus AM develops a base policy mix for each client portfolio at inception. This proportional combination of assets, when combined with an appropriate portfolio structure, reflects the unique investment needs of each client. Seelaus AM then uses tactical asset allocation (the act of making calculated changes to the base policy mix) to take advantage of relative value investment opportunities as they arise.

Seelaus AM is an active investment manager that seeks to outperform its benchmarks on a risk adjusted basis, by relying on the analytical skills, experience, and prudent judgment of its senior professionals. This is in contrast to a passive manager that seeks only to match the performance of a benchmark index. Active management at Seelaus AM does not involve excessive trading.

Seelaus AM invests in publicly traded stocks options, bonds, ETF's, mutual funds, preferred stocks, high yield corporate bonds and other securities. Clients should keep in mind that investing in securities involves the risk of loss and clients should be prepared to bear losses. Clients can lose money even when invested in conservative strategies. Clients should also keep in mind that past performance is not indicative of future results.

### **Private Funds**

Seelaus AM and its wholly owned affiliate Granite Springs Total Return GP, LLC act as GP and adviser to six private funds; Ocean Partners LLC, Sunnymeth Partners LLC, Sheraton Partners LP, Navesink River Partners LP, Edgewood Partners LP and Granite Springs Total Return Fund. While the methods of fundamental analysis are the same across the private funds (bottom up investment analysis), the investment strategies differ across the funds.

### **Granite Springs Total Return Fund.**

Granite Springs Total Return Fund is a long-only credit fund. The investment team utilizes a variety of strategies in predominantly investment grade credit markets (targeted portfolio-weighted average rating of Baa2/BBB, below B2/B not permitted) to exploit credit inefficiencies arising from dynamic market conditions and valuation anomalies. The strategy seeks to hedge interest rate exposure while actively managing credit and sector exposures (10% limit on a single issuer, 25% maximum by industry). Eligible investments in the fund include corporate credits, preferred securities, emerging markets and sovereign debt.

### **Ocean Partners LLC**

Ocean Partners LLC is an equity long-short fund pursuing an absolute return strategy. The fund has a concentrated, long-biased equity portfolio and expresses short positions through market indices or individual stocks to reduce market/portfolio risk.

### **Sunnymeth Partners LLC**

Sunnymeth Partners LLC is a fund pursuing an income strategy. The fund seeks income generating opportunities through its holdings of dividend paying common stocks, convertible and preferred issues, corporate bonds (short-term and high yield), municipal bonds and US Treasury and Agency bonds.

### **Sheraton Partners LP**

Sheraton Partners LP is an equity fund pursuing an income strategy. The fund seeks income generating opportunities through its holdings of dividend paying common stocks, convertible and preferred issues, corporate bonds (short-term and high yield) and common stocks of companies expected to institute a dividend within one year.

### **Navesink River Partners LP**

Navesink River Partners LP is an equity fund pursuing a growth strategy. The fund seeks opportunities through its holdings of common stocks, convertible issues and preferred issues.

### **Edgewood Partners LP**

Edgewood Partners LP is a balanced fund pursuing a growth and income strategy. The fund seeks opportunities for growth and income through its holdings of common stocks, convertible and preferred issues and corporate bonds (short-term and high yield).

### **Intermediate Municipal Bond Strategy**

Seelaus AM advises an Intermediate Municipal Bond Strategy, an investment grade (BBB- rated or higher, average rating is A) strategy focused on the intermediate part of the curve, with final maturities no longer than 15 years. Portfolio duration is 3.25 to 5.75 years and issue concentrations are limited to 3%-6%. The strategy is diversified through sectors, issuers, regions and bond types with out of state bonds considered on an after-tax basis.

### **High Yield Strategy**

Seelaus AM advises a High Yield Strategy, utilizing high yield and investment grade bonds, preferred stocks, and bond ETFs to create an income producing portfolio. The portfolio is diversified using rigorous credit and relative-value analysis to find undervalued securities, the investment team may also opportunistically trade on a shorter term basis to capitalize on specific market events including M&A transactions, calls and tenders, and rating changes.

### **Tactical MBS Strategy**

Seelaus AM advises a Tactical MBS Strategy, an investment grade strategy seeking to create uncorrelated high risk-adjusted returns with a core allocation of approximately 50% Agency MBS/CMO, guaranteed by the US Government or its Agencies.

### **Equity Portfolio Management**

Within our Equity Portfolio Management division, Seelaus AM's equity offering uses a bottom-up investment analysis method for securities in the client accounts it manages. Generally, we start out with Russell 3000 companies and look for companies with below market p/e, p/cf, and higher ROE and ROIC. The manager then utilizes fundamental research to assess debt/FCF generation and compares the companies versus their peers. Subsequently, additional due diligence is performed on company management, research reports, 10Qs and 10Ks, company presentations are reviewed. If the Firm believes there is an investment catalyst present, we will determine the risk/reward potential. Ultimately, a price target is set at which point the manager will buy an initial position of 1-3% within an asset class. Seelaus AM owns over 65 companies in long-term accounts for which employees are actively monitoring those current holdings for purchase and has an informal watch list of 100+ additional companies.

Investing in securities involves the possibility of a risk of loss. Although Seelaus AM maintains a discipline financial strategy designed to limit investment losses, it cannot eliminate the risk of loss in entirety. Clients can lose money even when invested in conservative strategies. Clients should also keep in mind that past performance is not indicative of future results and changes in economic or market conditions can have a material impact on the value of their portfolios. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Seelaus AM) will be profitable or equal any specific performance level(s).

Seelaus AM's investment approach and the use of derivatives, equity and fixed income securities have different risk profiles. Before investing on behalf of a client, Seelaus AM reviews the client's risk profile, financial situation, investment objective and time horizon. These risks are dependent on the specific client portfolio and may include but are not limited to the following risks:

#### **Asset Allocation Risk**

The amount invested in various asset classes of securities may change over time, clients are subject to the risk that Seelaus AM may allocate assets to an asset class that under performs other asset classes.

#### **Below Investment Grade Bond Risk**

Below investment grade bonds, otherwise known as high yield bonds ("junk bonds"), generally have a greater risk of principal loss than investment grade bonds. Below investment grade bonds are often considered speculative and involve significantly higher credit risk and liquidity risk. The value of these bonds may fluctuate more than the value of higher-rated debt obligations, and may decline significantly in periods of general economic difficulty or periods of rising interest rates.

**Call Risk**

Call risk is the risk that a bond issuer will redeem its callable bonds before they mature. Call risk is greater during periods of falling interest rates because the bond issuer can call the debt and reissue the debt at a lower rate. This action may reduce the client's income because it may have to reinvest the proceeds at lower interest rates.

**Credit Risk**

Credit risk is the risk that the issuer of the debt obligation will be unable to make interest or principal payments on time. A decrease in an issuer's credit rating may cause a decline in the value of the debt obligations held.

**Derivatives Risk**

The use of derivatives, such as futures, forwards, options and swaps, involves risks different from, or possibly greater than the risks associated with investing directly in securities. Prices of derivatives can be volatile and may move in unexpected ways, especially in unusual market conditions. Some derivatives are particularly sensitive to changes in interest rates. In addition, there may be imperfect or even negative correlation between the price of the derivatives contract and the price of the underlying securities. Other risks arise from the potential inability to terminate or sell derivative positions. Further, derivatives could result in loss if the counterparty to the transaction does not perform as promised.

**Hedging Risk**

Derivatives used to hedge a position or a portfolio may not provide an effective hedge of the underlying securities or indices because changes in the prices of derivatives may not track those of the securities or indices they are intended to hedge.

**Interest Rate Risk**

The value of debt obligations will typically fluctuate with interest rate changes. These fluctuations can be greater for debt obligations with longer maturities. When interest rates rise, debt obligations will generally decline in value, a result of which could be money lost. Periods of declining or low interest rates may negatively impact a client's yield.

**Inverse floaters and Inverse IOs**

Clients will be exposed to additional risk to the extent that Seelaus AM uses inverse floaters and inverse IOs, which are debt securities with interest rates that reset in the opposite direction from the market rate to which the security is indexed. These securities are more volatile and more sensitive to interest rate changes than other types of debt securities. If interest rates move in a manner not anticipated by Seelaus AM, clients could lose all or substantially all of its investment in inverse IOs.

**Liquidity Risk**

Liquidity risk is the risk that holdings which are considered to be illiquid may be difficult to value. Illiquid holdings also may be difficult to sell, both at the time or price desired.

**Mortgage-Backed Securities Risk**

The value of mortgage-backed securities (commercial and residential) may fluctuate significantly, in response to changes in interest rates. In periods of falling interest rates, underlying mortgages may be paid early, lowering the potential total return, and, during periods of rising interest rates, the rate at which the underlying mortgages are pre-paid may slow unexpectedly, causing the maturity of the mortgage-backed securities to increase and their value to decline.

**Odd Lot Risk**

Smaller size MBS CMO bonds, (e.g. "odd lots") typically trade at a discount compared to larger sized bonds (e.g. "round lots"). Buying a bond at a discount provides a greater return than non-discounted bonds when held to maturity (all other things being equal). However, typically there is a corresponding discount the seller must absorb when selling odd lots prior to maturity. Further, while market participants recognize "odd lot" dynamics, third-party pricing vendors frequently do not. Seelaus AM and its custodians rely on these vendors for portfolio valuations. Clients can view their portfolio by accessing their accounts through their custodian's website or on their monthly statements provided by their custodian. When a client owns "odd lots" in their portfolio, the valuation provided by the custodian may be inflated because the

third-party pricing vendor may be valuing those securities as if they were “round lots”. When these “odd lots” are sold, the client may receive less than the valuation provided by the custodian.

### **Prepayment Risk**

The issuer of certain securities may repay principal in advance, especially when yields fall. Changes in the rate at which prepayments occur can affect the return on investment of these securities. When debt obligations are prepaid or when securities are called, Seelaus AM may have to reinvest in securities with a lower yield. Seelaus AM also may fail to recover additional amounts (i.e., premiums) paid for securities with higher coupons, resulting in an unexpected capital loss.

CMOS and stripped mortgage-backed securities, including those structures as IOs and POs, are more volatile and may be more sensitive to the rate of prepayments than other mortgage related securities. The structure of some of these securities may be complex and there may be less available information than other types of debt securities.

**Principal Only (“PO”).** This security is created by splitting a mortgage-backed security into its interest and principal payments. The principal payments create a string of cash flows which are sold at a discount to investors. These investors will receive the principal portions of the monthly mortgage payments from the underlying pool of loans. The yield on a PO strip depends on the prepayment speed of the underlying loan. The faster the principal is repaid, the higher the yield an investor will receive. The slower the principal is repaid, the lower the yield an investor will receive. PO bonds receive the entire mortgage principal and only the mortgage principal.

- PO bonds have a known dollar amount but an unknown timing.
- The PO bonds will be sold to investors at a discount to the gross principal balance; the discount amount will be based on the level of interest rates and prepayment speed.
- Generally, PO strip bonds are more volatile than conventional MBS.
- Declining interest rates cause prepayments to decelerate and increases the discount rate applied to cash flows, thus lowering the PO price.
- The yield on PO strips varies based on the prepayment speed. The higher the prepayment, the faster the principal is repaid, and the higher the yield is for investors.

**Interest Only (“IO”).** The interest portion of the mortgage, Treasury or bond payments, which is separated and sold individually from the principal portion of those same payments. An IO bond might be part of a larger collateralized mortgage obligation (CMO), asset-backed security (ABS) or collateralized debt obligation (CDO) structure. IO bond investors receive only the interest component of the mortgages in the security pool.

- Assuming that a mortgage is held to maturity, the IO payments would be very high in the early years and very low in the later years.
- High prepayments tend to reduce IO values.
- As interest rates decline and prepayments increase, less dollars of interest are paid to IO investors, so IO prices can drop when interest rates decline.
- As interest rates increase, prepayments decrease, so mortgages last longer and the total dollars paid to IO holders rises; therefore IO prices can rise when interest rates rise.

### **Ocean Partners LLC**

Ocean Partners LLC is an equity long-short fund pursuing an absolute return strategy. Risk Factors for subscribers to Ocean Partners LLC include but are not limited to:

#### **Business Dependent Upon Key Individual.**

The Limited Partners have no authority to make decisions or to exercise business discretion on behalf of the Fund. The authority for all such decisions is delegated to the Investment Manager which is controlled by Mr. O’Mealia and given broad discretion and flexibility to select and manage the Fund’s investments. The success of the Fund is dependent substantially upon the expertise of Mr. O’Mealia.

**Limited Liquidity; In Kind Distributions.**

An investment in the Fund must be considered an illiquid investment and involves a high degree of risk. There is no public market for the Partnership interests, and it is not expected that a public market will develop. There are substantial restrictions on the ability of a Limited partner to withdraw capital or to transfer its Partnership interests. There can be no assurance that the Fund will have sufficient cash to satisfy redemption requests, or that it will be able to liquidate investments at the time of such redemption request at favorable prices. Under the foregoing circumstances, and under other circumstances deemed appropriate by the Managing Members, Limited Partners may receive in-kind distributions from the Fund's portfolio. Such investments so distributed may not be readily marketable or saleable and may have to be held by such Limited partner for an indefinite period of time. As a result, an investment in the Fund is suitable only for sophisticated investors who can afford to bear the risk of a complete loss of such investment. A purchase of Partnership interests should be considered only by persons financially able to maintain their investment and who can afford a loss of all or a substantial part of such investment. The Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if the Incentive Fee was not made. The Incentive Fee (as well as the Management Fee) was set by the Investment Manager without negotiations with any third party. In addition, since the Incentive Fee is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if such allocation was based solely on realized gain.

**Incentive Fee; Conflicts of Interest.**

The Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if the Incentive Fee was not made. The Incentive Fee (as well as the Management Fee) was set by the Investment Manager without negotiations with any third party. In addition, since the Incentive Fee is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if such allocation was based solely on realized gain. Furthermore, the Investment Manager has the power and authority to establish the value of securities and other assets owned by the Fund for purposes of establishing the net asset value of the Fund, upon which both the Incentive Fee and Management Fee are based. The Investment Manager, Mr. O'Mealia and their affiliates will be subject to a variety of conflicts of interests in making investments on behalf of the Fund.

**Tax-Exempt Investors.**

Certain prospective Limited Partners may be subject to Federal and state laws, rules and regulations which may regulate their participation in the Fund, or their engaging directly, or indirectly through an investment in the Fund, in investment strategies of the types which the Fund may utilize from time to time (e.g., short sales of securities and limited diversification). Each type of exempt organization may be subject to different laws, rules and regulations, and prospective Limited Partners should consult with their own advisers as to the advisability and tax consequences of an investment in the Fund. Investment in the Fund by entities subject to ERISA and other tax-exempt entities requires special consideration. Trustees or administrators of such entities are urged to carefully review the matters discussed in this Confidential Memorandum.

**Absence of Regulatory Oversight.**

The Partnership interests offered hereby have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Confidential Memorandum. The Partnership interests offered hereby have not been registered under the U.S. Securities Act of 1933 (the "1933 Act"), as amended, nor the securities laws of any state and are being offered and sold in reliance on exemptions from the registration requirements of those laws. While the Fund may be considered similar to an investment company, it has not registered as such under the 40 Act in reliance upon an exemption available to privately offered investment companies and, accordingly, the provisions of such Act (which, among other things, require investment companies to have a majority of disinterested managing members, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company, and regulate the relationship between the adviser and the investment company) are not applicable. Because securities of

the Fund held by brokers are generally not held in the Fund's name, a failure of any such broker is likely to have a greater adverse impact on the Fund than if such securities were registered in the Fund's name.

### **Future Regulation**

Growing concern about the lack of regulation of private investment partnerships and hedge funds has led to the proposal of various laws and regulations regarding investment partnerships and hedge funds and may in the future lead to additional such proposals. Such regulatory proposals, or any future proposals, if adopted could adversely affect the Fund, including its business, financial condition and prospects.

### **No Assurance of Fund Profit, Cash Distributions or Appreciation**

It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before realization of gains on successful investments. There may be no current return on the investments for an extended period of time. Distributions are declared in the sole discretion of the Managing Members of the Fund, which has no current intention to make any distributions to the Limited Partners. There is no assurance that the Fund will make distributions to the Limited Partners.

### **Events of September 11, 2001**

On September 11, 2001, terrorist attacks on the United States caused significant loss of life and property damage and disruptions in U.S. markets and in global markets. Since that time, the United States has commenced military action and imposed economic and diplomatic sanctions. The short-term and long-term impact of these events, and of further possible terrorist attacks, is unclear, but could have a material adverse effect on general economic conditions and market liquidity.

### **High Risk Investments; Market Volatility**

A potential investor should be aware that it may lose all or part of its investment in the Fund. While investments in companies in certain industries offer the opportunity for significant capital gains, such investments involve a high degree of business, financial, technological and regulatory risk which can result in substantial losses. Moreover, the Fund's investment portfolio may include investments particularly subject to increased risk because they are in companies at an early stage of development, which have been or may go into bankruptcy, acquired as leveraged buyouts subject to interest rate fluctuations, or engaged in highly competitive industries dominated by companies with substantially greater resources. The stock market has experienced volatility. As a result, the Fund's performance may experience substantial volatility and potential for loss. The Investment Manager believes that the Fund's investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that the Fund's program will be successful. Furthermore, certain investment techniques which the Fund expects to utilize can, in certain circumstances, increase the adverse impact which the Fund is subject to. The Fund may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities, when the Investment Manager believes that such securities offer opportunities for capital growth. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. It is likely that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

### **Securities of Small Capitalization Companies**

Some of the issuers of securities in which the Fund may invest may be more vulnerable than larger companies to adverse business or market development, may have limited markets or financial resources and may lack experienced management. In addition, many micro-cap, small and medium-size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few securities analysts, if any, and thus there tends to be

limited publicly available information concerning such companies. Additionally, some securities traded in the over-the-counter market may have few market makers, wider bid/ask spread and low trading volumes which may result in high price volatility and limited liquidity. Investments in such companies will substantially increase the risk of an investment in the Fund.

### **Competitive Market for Investments; Unidentified Investments**

The business of identifying and structuring certain transactions of the nature contemplated by the Fund is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that the Fund will be able to locate and complete attractive investments, that it will be able to adhere to the investment selection criterion outlined herein or that, if adhered to and implemented, any such investments will produce superior risk-adjusted rates of return or otherwise achieve the Fund's objectives. Furthermore, there can be no assurance that the Fund will be able to invest the entire amount of the Limited Partners' investments or that suitable investment opportunities will otherwise be identified.

### **Effect of Material Redemptions**

Generally, a Limited partner will have the right, upon 30 days' prior written notice, to request to redeem all or a portion of its Class A or Class B Partnership interests at the end of each calendar month on or after the first anniversary of its initial purchase of Partnership interests. Redemptions by one or more Limited Partners of a material percentage of the outstanding Partnership interests may materially adversely affect the Fund's liquidity and performance. The Fund may be forced to liquidate a significant portion of its assets in order to satisfy such withdrawals at a time when it would otherwise be in the best interests of the Fund not to liquidate whether due to adverse market conditions or otherwise. This risk may increase significantly if the Fund grants special withdrawal rights to any Limited partner shortening or eliminating any holding or notice requirements.

### **Concentration of Investments**

The Fund may participate in a limited number of investments, and may seek to make several investments in one industry or one industry segment. As a result, the Fund's investment portfolio is usually highly concentrated and its aggregate return may be affected substantially by the performance of only a few holdings.

### **Non-U.S. Investments**

The Fund may invest in securities of non-U.S. corporations and in countries other than the United States. Investing in the equity securities of non-U.S. companies involves certain considerations not usually associated with investing in securities of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in countries other than the United States generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in countries other than the United States than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in countries other than the United States than there is in the United States.

### **Short Selling**

The Fund's investment portfolio may include short positions. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from decline in the price of a particular security. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

### **Portfolio Turnover**

The Fund may engage in frequent short-term trading and, as a result, trading and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size.

### **Leverage and Hedging Transactions**

The Fund may utilize a variety of aggressive investment techniques including, but not limited to, purchase of securities on margin, use of options, short term trading, derivatives, options, swaps, caps and floors, and forward contracts, both for investment purposes and for risk management purposes. While the Fund may enter into such transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging or leveraging transaction. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). However, the Fund will not engage in transactions involving futures contracts and options thereon, unless the Investment Manager or Mr. O'Mealia registers as a commodity pool operator with the U.S. Commodity Futures Trading Commission ("CFTC") or qualifies for an exemption therefrom.

### **Currency**

The Fund may invest a portion of its assets in instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. The Fund will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of the Fund's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Fund makes its investments will reduce, all other economic factors being constant, the effect of increases and magnify the effect of decreases in the prices of the Fund's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Fund's non-U.S. dollar securities. To the extent permitted, the Fund also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

### **Counterparty and Settlement Risk**

To the extent the Fund invests in non-U.S. securities, swaps, or derivatives, or other over-the-counter transactions, in certain circumstances, the Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Fund and hence the Fund should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this and there may be practical or time problems associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

### **Valuation of Fund Investments**

The Fund's assets will generally be valued in accordance with GAAP. The Net Asset Value calculation is made by the Administrator in consultation with the Investment Manager. Limited Partners may request the latest available Net Asset Value from the Administrator. All matters concerning valuation of securities and liabilities, as well as allocations among the Limited Partners and accounting procedures, not expressly provided for in the Fund's Articles of Association, will be determined by the Managing Members, after consultation with the Administrator and the Investment Manager, whose determination is final and conclusive as to all Limited Partners.

### **Broad Indemnification**

The Articles of Association contain provisions that may provide a broader indemnification of the Managing Members and officers of the Fund against claims or lawsuits arising out of the Fund's activities than would apply in the absence of such provisions. If the Fund were called upon to perform under its indemnification obligations, then the portion of its assets expended in such fashion would reduce the amount otherwise available for Fund operations. The Administrator and

Investment Manager are each entitled to such indemnification from the Fund under such terms and subject to such conditions and exceptions and with such entitlement to have recourse to the assets of the Fund to satisfy such indemnification as shall be provided under the Administrative Services Agreement and the Investment Management Agreement, respectively.

### **Lack of Liquidity of Certain Investments**

The Fund may invest in securities that are subject to legal and contractual restrictions on sale because, among other things, they were acquired from the issuer in “private placement” transactions. Such investments will be illiquid and difficult to value and there will generally be no collateral to secure an investment once made. The Fund will not be able to sell these securities publicly unless their sale is registered under the 1933 Act and applicable state securities laws or unless an exemption from such registration requirements is available. Registration under such laws is ordinarily within the exclusive control of the issuer. No assurance can be given that any issuer will register the partnership interests.

### **Options**

The Fund may buy or sell (write) both call options and put options, and when it writes options it may do so on a “covered” or “uncovered” basis. Purchasing or selling put and call options are highly specialized activities and expose the Fund to significantly greater risk than ordinary investment risks.

### **Sunnymeath Partners LLC**

Sunnymeath Partners LLC is a fund pursuing an income strategy. Risk Factors for subscribers to Sunnymeath Partners LLC include but are not limited to:

#### **Business Dependent Upon Key Individual.**

The Members have no authority to make decisions or to exercise business or investment discretion on behalf of the Fund. The authority for all such decisions is delegated to the Investment Manager, which is controlled by Mr. O’Mealia and given broad discretion and flexibility to select and manage the Fund’s investments. The success of the Fund depends primarily upon the expertise of Mr. O’Mealia.

#### **Limited Liquidity; In Kind Distributions.**

An investment in the Fund must be considered an illiquid investment and involves a high degree of risk. There is no public market for the membership interests, and it is not expected that a public market will develop. There are substantial restrictions on the ability of a Member to withdraw capital or to transfer its membership interests. There can be no assurance that the Fund will have sufficient cash to satisfy redemption requests, or that it will be able to liquidate investments at the time of such redemption request at favorable prices. A purchase of membership interests should be considered only by sophisticated investors financially able to maintain their investment and who can afford a loss of all or a substantial part of such investment.

#### **Incentive Allocation; Conflicts of Interest.**

The Incentive Allocation is an allocation of 10% (subject to different agreement with various Members) of the aggregate net profit of the Fund to the Investment Manager. There is no corresponding allocation of net loss. The Incentive Allocation may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if there were no Incentive Allocation. The Incentive Allocation (as well as the Management Fee) was set by the Investment Manager without negotiations with any third party. In addition, since the Incentive Allocation is calculated on a basis that includes unrealized appreciation of the Fund’s assets, it may be greater than if such allocation was based solely on realized gain. The Investment Manager, Mr. O’Mealia and their affiliates will be subject to a variety of conflicts of interests in making investments on behalf of the Fund.

#### **Tax-Exempt Investors.**

Certain prospective Members may be subject to Federal and state laws, rules and regulations which may regulate their participation in the Fund, or their engaging directly, or indirectly through an investment in the Fund, in investment strategies of the types which the Fund may utilize from time to time (e.g., limited diversification and the possible recognition by non-profit entities of Unrelated Business Taxable Income). Each type of exempt organization may be

subject to different laws, rules and regulations, and prospective Members should consult with their own advisers as to the advisability and tax consequences of an investment in the Fund. Investment in the Fund by entities subject to ERISA and other tax exempt entities requires special consideration. Trustees or administrators of such entities are urged to review carefully the matters discussed in this Confidential Memorandum.

#### **Absence of Regulatory Oversight.**

The Membership Interests offered hereby have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Confidential Memorandum. This offering of membership interests has not been registered under the U.S. Securities Act of 1933 (the “1933 Act”), as amended, nor the securities laws of any state and is being made in reliance on exemptions from the registration requirements of those laws. While the Fund may be considered similar to an investment company, it has not registered as such under the Investment Company Act of 1940 (the “’40 Act”), as amended, in reliance upon an exemption available to privately offered investment companies; and, accordingly, the provisions of such Act (which, among other things, require investment companies to have a majority of disinterested managing members, regulate the relationship between the adviser and the investment company and mandate certain investment policies) are not applicable.

#### **Future Regulation.**

Growing concern about the lack of regulation of private investment partnerships and hedge funds led to a requirement that certain investment advisers to hedge funds register as investment advisers under the Advisers Act. Although this particular requirement did not survive judicial scrutiny, disruptions in the United States and global capital markets that occurred in 2008 have generated increased calls for greater transparency and, therefore, regulation of hedge funds. Industry professionals have expressed concern that any legislative reaction to these disruptions may be hasty and ill-conceived. This could adversely affect the hedge fund industry in general, and the Fund, including its business, financial condition and prospects, in particular.

#### **No Assurance of Fund Profit, Cash Distributions or Appreciation.**

It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before realization of gains on successful investments. There may be no current return on the investments for an extended period of time. Distributions are declared in the sole discretion of the Investment Manager. There is no assurance that the Fund will make distributions to the Members.

#### **High Risk Investments; Market Volatility.**

A potential investor should be aware that it may lose all or part of its investment in the Fund. While investments in debt and equity of companies in certain industries offer the opportunity for significant income, such investments often involve a high degree of business, financial, technological and regulatory risk, which can result in substantial losses. There is a general correlation between risk and return so that higher yielding investments often are subject to greater risk. Moreover, the Fund’s investment portfolio may include investments particularly subject to increased risk because they are in companies at an early stage of development, which have been or may go into bankruptcy, acquired as leveraged buyouts subject to interest rate fluctuations, or engaged in highly competitive industries dominated by companies with substantially greater resources. The stock and bond markets are volatile and respond both to economic and financial events and conditions affecting issuers directly and to political and military events worldwide. As a result, the Fund’s performance may experience substantial volatility and potential for loss over which neither it nor the Investment Manager has any control. The Investment Manager believes that the Fund’s investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. There can, however, be no guarantee or representation that the Fund’s program will be successful. Furthermore, certain investment techniques that the Fund expects to utilize can, in certain circumstances, increase the adverse impact to which the Fund is subject. The Fund may invest in bonds or other fixed income securities, including, without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities, when the Investment Manager believes that such securities offer opportunities for increased income. Such securities may be below “investment grade” and face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer’s inability to meet timely interest and

principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. They also tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. It is likely that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

#### **Securities of Small Capitalization Companies.**

Some of the issuers of securities in which the Fund may invest may be more vulnerable than larger companies to adverse business or market development, may have limited markets or financial resources and may lack experienced management. In addition, many micro-cap, small and medium-size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few securities analysts, if any. There tends to be limited distribution of their publicly available information, which may create situations in which the prices of their securities do not completely reflect that information. Additionally, some securities traded in the over-the-counter market may have few market makers, relatively great bid/ask spread and low trading volumes, which may result in high price volatility and limited liquidity. Investments in such companies will substantially increase the risk of an investment in the Fund.

#### **Competitive Market for Investments; Unidentified Investments.**

The business of identifying and structuring certain transactions of the nature contemplated by the Fund is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that the Fund will be able to locate and complete attractive investments, that it will be able to adhere to the investment selection criteria outlined herein or that, if adhered to and implemented, any such investments will produce superior risk adjusted rates of return or otherwise achieve the Fund's objectives. Furthermore, there can be no assurance that the Fund will be able to invest the entire amount of the Members' investments or that suitable investment opportunities will otherwise be identified.

#### **Effect of Material Redemptions.**

Generally, a Member will have the right, upon 30 days' prior written notice, to request to redeem all or a portion of its membership interests at the end of each calendar month on or after the first anniversary of its initial purchase of membership interests. Redemptions by one or more Members of a significant percentage of the outstanding membership interests may materially adversely affect the Fund's liquidity and performance. The Fund may be forced to liquidate a substantial portion of its assets in order to satisfy such withdrawals at a time when it would otherwise be in the best interests of the Fund not to liquidate whether due to adverse market conditions or otherwise. This risk may increase significantly if the Fund grants special withdrawal rights to any Member shortening or eliminating any holding or notice requirements.

#### **Concentration of Investments.**

The Fund may participate in a limited number of investments, and may seek to make several investments in one industry or one industry segment. As a result, the Fund's investment portfolio may be highly concentrated; and its aggregate return may be affected substantially by the performance of only a few holdings.

#### **Non-U.S. Investments.**

The Fund may invest in securities of non-U.S. corporations and in countries other than the United States. Investing in the equity securities of non-U.S. companies involves certain considerations not usually associated with investing in securities of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in countries other than the United States generally are not equivalent to U.S.

standards and, consequently, less information may be available to investors in companies located in countries other than the United States than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in countries other than the United States than there is in the United States.

#### **Portfolio Turnover.**

The Fund may engage in frequent short-term trading and, as a result, trading and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size.

#### **Leverage and Hedging Transactions.**

The Fund may utilize a variety of aggressive investment techniques including, but not limited to, purchase of securities on margin, use of options, short term trading, short sales, derivatives, options, swaps, caps and floors, and forward contracts, both for investment purposes and for risk management purposes. While the Fund may enter into such transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging or leveraging transactions. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). The Fund will not engage in transactions involving futures contracts and options thereon, unless the Investment Manager or Mr. O’Mealia registers as a commodity pool operator with the U.S. Commodity Futures Trading Commission (“CFTC”) or qualifies for an exemption therefrom.

#### **Short Selling.**

Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. Due to the inability to borrow the stock of certain companies engaged in technology-related businesses, it may not be possible to short the stock of such companies from time to time. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. This risk is enhanced if the security being sold short is highly volatile and there is a significant outstanding short interest or high trading volume, which can result in the holder of a short position being forced to purchase the securities necessary to cover the short position. These conditions exist in the stocks of many companies engaged in technology-related businesses. The securities necessary to cover a short position may be unavailable for purchase except at much higher prices. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, a short position could result in a loss by the Partnership of all or a substantial portion of its assets.

#### **Currency.**

The Fund may invest a portion of its assets in instruments denominated in currencies other than the U.S. dollar. The Fund will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of the Fund’s assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Fund’s investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Fund makes its investments will reduce, all other economic factors being constant, the effect of increases and magnify the effect of decreases in the prices of the Fund’s securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Fund’s non-U.S. dollar securities. To the extent permitted, the Fund also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

#### **Counterparty and Settlement Risk.**

To the extent the Fund invests in swaps or derivatives, in certain circumstances, the Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These investments often have no liquid trading market. These risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guaranties, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. The failure of

certain American financial institution counterparties in 2008 contributed significantly to the disruption of the American and global capital markets at that time.

#### **Valuation of Fund Investments.**

The Fund's assets will generally be valued in accordance with GAAP. The portfolio valuation is made by its Prime Broker in consultation with the Investment Manager. All matters concerning valuation of securities and liabilities, as well as allocations among the Members and accounting procedures, not expressly provided for in the Fund's Operating Agreement, will be determined by the Investment Manager, after consultation with its Prime Broker, whose determination is final and conclusive as to all Members.

#### **Broad Indemnification.**

The Operating Agreement of the Fund contains provisions that may provide a broader indemnification of the Investment Manager and its directors and officers against claims or lawsuits arising out of the Fund's activities than would apply in the absence of such provisions. If the Fund were called upon to perform under its indemnification obligations, then the portion of its assets expended in such fashion would reduce the amount otherwise available for Fund operations. The Fund's Prime Broker is entitled to such indemnification from the Fund under such terms and subject to such conditions and exceptions and with such entitlement to have recourse to the assets of the Fund to satisfy such indemnification as is provided under the Agreement between the Fund and its Prime Broker.

#### **Lack of Liquidity of Certain Investments.**

The Fund may invest in securities that are subject to legal and contractual restrictions on sale because, among other things, they were acquired from the issuer in "private placement" transactions. Such investments will be illiquid and difficult to value and there will generally be no collateral to secure an investment once made. The Fund will not be able to sell these securities publicly unless their sale is registered under the 1933 Act and applicable state securities laws or unless an exemption from such registration requirements is available. Registration under such laws is ordinarily within the exclusive control of the issuer. No assurance can be given that any issuer will register these securities. Even certain of the publicly traded securities that the Fund may acquire may have limited trading volume which tends to reduce the liquidity of these securities.

#### **Options; Short Sales.**

The Fund may buy or sell (write) both call options and put options, and when it writes options it may do so on a "covered" or "uncovered" basis. Purchasing and selling put and call options are highly specialized activities and expose the Fund to significantly greater risk than ordinary investment risks. The Fund may also sell securities short, which means that it borrows the securities that it delivers to the counterparty and must replace those securities within a defined time period. If the price of those securities increases during that time period, this would expose the Fund to potentially unlimited liability to purchase replacement securities.

#### **Sheraton Partners LP**

Sheraton Partners LP is an equity fund pursuing an income strategy. Risk Factors for subscribers to Sheraton Partners include but are not limited to:

#### **Lack of Operating History.**

The Partnership is a recently formed entity and has no operating history. The past investment performance of the General Partner or other entities with which it may have been affiliated is not an indication of the future results of the Partnership. The Partnership's investment program should be evaluated on the basis that there can be no assurance that the General Partner's assessments of the short-term or long-term prospects of investments will prove accurate or that the Partnership will achieve its investment objective.

#### **Limited Diversification.**

Since the portfolio of the Partnership may be concentrated in a few key industries, the risk of loss is greater than if the portfolio were invested in a more diversified manner among various sectors. In addition, although the diversification of the Partnership's investments in a variety of securities is intended to reduce the Partnership's exposure to adverse events

associated with specific issuers, the number of investments by the Partnership will be limited. As a consequence, the Partnership's returns as a whole may be adversely affected by the unfavorable performance of even a single investment.

### **Business Dependent Upon Key Individual.**

The Limited Partners shall have no authority to make decisions or to exercise business discretion on behalf of the Partnership. The authority for all such decisions is delegated to the General Partner. The success of the Partnership is expected to be significantly dependent upon the expertise of Mr. O'Mealia. If the General Partner were to lose the services of Mr. O'Mealia the effects on the Partnership would be material and adverse.

### **Limited Liquidity; In-Kind Distributions.**

An investment in the Partnership provides limited liquidity since the Interests are not freely transferable and a Limited Partner generally may withdraw its capital only quarterly, subject to several limitations. The Partnership expects to distribute cash to a Limited Partner upon a withdrawal from the Limited Partner's capital account. However, there can be no assurance that the Partnership will have sufficient cash to satisfy withdrawal requests, or that it will be able to liquidate investments at favorable prices at the time of such withdrawal request. Under the foregoing circumstances, and under other circumstances deemed appropriate by the General Partner, a Limited Partner may receive in-kind distributions from the Partnership's portfolio. Such investments so distributed may not be readily marketable or salable and may have to be held by such Limited Partner for an indefinite period of time. As a result, an investment in the Interests is suitable only for sophisticated investors that do not require immediate liquidity for their investment and are able to bear the financial risks of this investment for an indefinite period of time.

### **Investment and Trading Risks.**

All investments, including an investment in the Partnership, risk the loss of capital. A Limited Partner should be aware that it may lose all or part of its investment in the Partnership. The Partnership's investment program will utilize certain investment techniques such as margin transactions, short sales and leverage which can, in certain circumstances, increase the adverse impact to which the Partnership may be subject.

### **Illiquid Portfolio Securities.**

To the extent that the Partnership invests in private securities or restricted securities, the valuation of such securities will be determined by the General Partner, whose determination will be final and conclusive as to all parties. The market prices, if any, for such securities tend to be volatile and the Partnership may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

### **Small and Medium Capitalization Companies.**

The Partnership may invest a portion of its assets in the securities of companies with small to medium-sized market capitalizations. While the General Partner believes such securities often provide significant potential for appreciation, the securities of certain companies, particularly smaller-capitalization companies, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of small-capitalization and even medium-capitalization securities are often more volatile than prices of large-capitalization securities and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

### **Derivative Instruments.**

The Partnership may invest in derivative instruments. The prices of many derivative instruments, including many options and swaps, are highly volatile. Price movements of options contracts and payments pursuant to swap agreements 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 value of options and swap agreements also depends upon the price of the securities or currencies underlying

them. The Partnership is also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities. Accordingly, options on highly volatile securities, such as the stock of many companies in technology-related businesses, may be more expensive than options on other securities. The Partnership may purchase and sell (“write”) options on securities and currencies on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller (“writer”) of a put option that is covered assumes the risk of an increase in the market price of the underlying security or currency above the sales price (in establishing the short position) of the underlying security or currency plus the premium received, and gives up the opportunity for gain on the underlying security or currency below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security or currency below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. The writer of a call option that is covered assumes the risk of a decline in the market price of the underlying security or currency below the value of the underlying security or currency less the premium received, and gives up the opportunity for gain on the underlying security or currency above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security or currency above the exercise price of the option. This risk is enhanced if the security being sold short is highly volatile and there is a significant outstanding short interest. These conditions may exist in the stocks of many companies in technology-related businesses. The securities necessary to satisfy the exercise of the call option may be unavailable for purchase except at much higher prices. Purchasing securities to satisfy the exercise of the call option can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, the sale of an uncovered call option could result in a loss by the Partnership of all or a substantial portion of its assets. The buyer of a call option assumes the risk of losing its entire investment in the call option. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

#### **Currency.**

A portion of the Partnership’s assets may be invested, directly and indirectly, in securities denominated in currencies other than the U.S. dollar or whose prices are determined with reference to non-U.S. currencies. The General Partner may determine not to hedge all or any portion of the foreign currency exposure of the Partnership. To the extent unhedged, the value of the assets of the Partnership will fluctuate with U.S. dollar exchange rates as well as the price changes of the investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies will reduce the effect of increases and magnify the effect of decreases in the prices of the non-dollar denominated securities owned by the Partnership. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the non-U.S. dollar securities owned by the Partnership.

#### **Leverage.**

The Partnership may borrow funds from brokerage firms and banks in order to be able to increase the amount of capital available for marketable securities investments. In addition, the Partnership may “leverage” its investment return with options, swaps, forwards and other derivative instruments. While leverage presents opportunities for increasing the Partnership’s total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by the Partnership would be magnified to the extent that leverage is employed by the Partnership. The cumulative effect of the use of leverage by the Partnership in a market that moves adversely to the Partnership’s investments could result in a loss to the Partnership which would be greater than if leverage were not employed by the Partnership. In addition, to the extent the Partnership borrows funds, the level of interest rates generally, and the rates at which the Partnership can borrow, in particular, will affect the operating results of the Partnership. In general, the Partnership’s anticipated use of short-term margin borrowings results in certain additional risks to the Partnership. For example, should the securities pledged to brokers to secure the Partnership’s margin accounts decline in value or should brokers from which the Partnership has borrowed increase their maintenance margin requirements (i.e., reduce the percentage of a position that can be financed), the Partnership could be subject to a “margin call”, pursuant to which the Partnership must either deposit additional funds with the broker, or suffer mandatory liquidation of all or a

portion of the pledged securities to compensate for the decline in value. In the event of a precipitous drop in the value of the assets managed by the Partnership, the Partnership might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses. Recently, some brokers have imposed increased margin maintenance requirements, in some cases as high as 100%, for stocks of certain companies engaged in technology-related businesses. If the brokers from which the Partnership borrows were to do this, in addition to the consequences discussed above, the ability of the Partnership to invest on margin could be severely reduced or eliminated. This could result in lower returns for the Partnership.

### **Non-U.S. Investments.**

The Partnership may invest in non-U.S. securities or U.S. securities denominated in non-U.S. currencies and/or traded outside of the United States. Such investments require consideration of certain risks typically not associated with investing in U.S. securities or property. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by the United States or foreign governments, United States and foreign withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries and political difficulties, including expropriation of assets, confiscatory taxation and economic or political instability. There may be less publicly available information about certain foreign companies than would be the case for comparable companies in the United States, and certain foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of United States companies. Securities markets outside the United States, while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities traded on these foreign markets are less liquid and their prices more volatile than securities of comparable United States companies. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets. There also may be less extensive regulation of the securities markets in particular countries than in the United States. These risks may be greater for companies in emerging markets. Additional costs could be incurred in connection with the international investment activities of the Partnership. Foreign brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Partnership changes investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of foreign laws to foreign custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in foreign jurisdictions.

### **Hedging Transactions.**

The Partnership may utilize financial instruments such as forward contracts, options and interest rate swaps, caps and floors to seek to hedge against fluctuations in the relative values of its portfolio positions as a result of changes in currency exchange rates, certain changes in the equity markets and changes in market interest rates. Hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for the Partnership to hedge against a fluctuation at a price sufficient to protect the Partnership's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. For example, the cost of options is related, in part, to the degree of volatility of the underlying securities. Accordingly, options on highly volatile securities, such as the stock of many companies engaged in technology-related businesses, may be more expensive than options on other securities and of limited utility in hedging against fluctuations in those securities. In addition, options may not exist on the stock of certain companies engaged in technology-related businesses. The General Partner is not obligated to establish hedges for portfolio positions and may not do so. To the extent that hedging transactions are effected, their success is dependent on the General Partner's ability to correctly predict movements in the direction of currency and interest rates and the equity markets or sectors thereof. Therefore, while the Partnership may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, or the risks of a decline in the equity markets generally or one or more sectors of the equity markets in particular, unanticipated changes in currency or interest rates or increases or smaller than expected decreases in the equity markets or sectors being hedged may result in a poorer overall performance for the Partnership

than if the General Partner had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Moreover, for a variety of reasons, the General Partner may not seek to hedge certain portfolio holdings or establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Partnership from achieving the intended hedge or expose the Partnership to additional risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Partnership's portfolio holdings.

### **Short Selling.**

Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. Due to the inability to borrow the stock of certain companies engaged in technology-related businesses, it may not be possible to short the stock of such companies from time to time. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. This risk is enhanced if the security being sold short is highly volatile and there is a significant outstanding short interest or high trading volume, which can result in the holder of a short position being forced to purchase the securities necessary to cover the short position. These conditions exist in the stocks of many companies engaged in technology-related businesses. The securities necessary to cover a short position may be unavailable for purchase except at much higher prices. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, a short position could result in a loss by the Partnership of all or a substantial portion of its assets.

### **New Issues.**

A significant portion of the return of the Partnership could result from investing in "new issues" as defined under applicable rules of the National Association of Securities Dealers, Inc. (the "NASD Rules"), which restrict certain persons from receiving securities which are "new issues." Partners to whom, as a result of the NASD Rules, the Partnership will be allocated only a de minimis amount of new issues, will not receive as much of that portion of the return of the Partnership which results from investing in new issues as Partners that are not so restricted.

### **Tax-Exempt Investors.**

Certain prospective Limited Partners may be subject to Federal and state laws, rules and regulations which may regulate their participation in the Partnership, or their engaging directly, or indirectly through an investment in the Partnership, in investment strategies of the types which the Partnership may utilize from time to time (e.g., short sales of securities and the use of leverage and limited diversification). Each type of exempt organization may be subject to different laws, rules and regulations, and prospective Limited Partners should consult with their own advisers as to the advisability and tax consequences of an investment in the Partnership. Investment in the Partnership by entities subject to ERISA or Section 4975 of the Code and other tax-exempt entities requires special consideration. Trustees or administrators of such entities are urged to carefully review the matters discussed in this Confidential Memorandum. Since the Partnership is permitted to borrow, tax-exempt Limited Partners may incur income tax liability to the extent of their share of the Partnership's "unrelated business taxable income."

### **Absence of Regulatory Oversight.**

While the Partnership may be considered similar to an investment company, it is not registered as such under the Investment Company Act of 1940, as amended (the "Company Act") in reliance upon an exemption available to privately offered investment companies and, accordingly, many of the provisions of such Act (which, among other things, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company, and regulate the relationship between the adviser and the investment company) are not applicable. Because securities of the Partnership held by brokers are generally not held in the Partnership's name, a failure of any such broker is likely to have a greater adverse impact on the

Partnership than if such securities were registered in the Partnership's name. (See "Partnership Policies; Comparison to Certain Policies of Investment Companies Registered Under The Investment Company Act of 1940.")

### **Conflicts of Interest.**

The General Partner will be subject to a variety of conflicts of interests in making investments on behalf of the Partnership.

### **Counterparty Risk.**

Some of the markets in which the Partnership may effect its 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 Partnership to the risk that a counterparty will not settle a transaction in accordance with or because of a credit or liquidity problem, thus causing the Partnership to suffer a loss. In addition, in the case of a default, the Partnership could, directly or indirectly, become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Partnership has concentrated its transactions with a single or small group of counterparties. The Partnership is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Partnership does not have an internal credit function which evaluates the creditworthiness of its counterparties. The ability of the Partnership to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Partnership.

### **Future Regulatory Developments.**

There is speculation that U.S. and non-U.S. governments may increase the regulation of private funds. In particular, the SEC, concerned with, among other things, increasing allegations of fraud by hedge fund managers, has launched a formal investigation into the private fund industry. The potential results of this investigation are unclear, but it could have a material effect on the private fund industry.

### **Forward Trading.**

The Partnership may invest in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that which they were prepared to sell. Disruptions can occur in any market traded by the Portfolio due to unusually high trading volume, political intervention or other factors. The imposition of controls by government authorities might also limit such forward (and futures) trading to less than that which the General Partner would otherwise recommend, to the possible detriment of the Partnership. Market illiquidity or disruption could result in major losses to the Partnership.

### **Events of September 11, 2001.**

On September 11, 2001, terrorist attacks on the United States caused significant loss of life and property damage and disruptions in U.S. markets and in global markets. Since that time, the United States has commenced military action and imposed economic and diplomatic sanctions. The short-term and long-term impact of these events, and of further possible terrorist attacks, is unclear, but could have a material effect on general economic conditions and market liquidity.

### **Navesink River Partners LP**

Navesink River Partners is an equity fund pursuing a growth strategy. Risk Factors for subscribers to Navesink River Partners LP include but are not limited to:

**General**

There is no assurance that the General Partner will accurately foresee changes in the markets or that it can successfully invest for profits in the short term. This form of investing is normally considered to involve high risk because of the difficulty of foreseeing the course that the markets will follow in the short term. Nevertheless, the General Partner believes that its value discipline will allow partners to participate in market upturns and will attempt to outperform the major stock market indices over a longer-term basis. It should be noted that substantially higher brokerage commissions could be incurred during periods of rapid turnover in the Partnership's portfolio due to high levels of volatility in the equity markets. The General Partner's compensation may be higher than alternative compensatory arrangements to other money managers.

**Edgewood Partners, LP**

Edgewood Partners LP is a balanced fund pursuing a growth and income strategy. Risk Factors for subscribers to Edgewood Partners include but are not limited to:

**General**

There is, of course, no assurance that the General Partner will accurately foresee changes in the markets or that it can successfully invest for profits in the short term. In addition, this form of investing is normally considered to involve high risk because of the difficulty of foreseeing the course that the markets will follow in the short term. Nevertheless, the General Partner believes that the use of better quality high yield bonds should enhance the returns to the portfolio, and with lower volatility than an equity-only portfolio. Furthermore, there are certain additional costs associated with following the policy outlined above. First, substantially higher brokerage commissions are incurred during periods of rapid turnover in the partnership's portfolio. Second, the fee paid to the General Partner is higher than what would be the case for many portfolios because the General Partner must devote more time to following the portfolio and the numerous factors that influence short-term market movements.

## **Item 9 Disciplinary Information**

Seelaus AM has never been the subject of any material disciplinary actions related to its advisory business or the integrity of management.

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

### **Registered Representative of a Broker-Dealer**

Some of our representatives are also registered representatives of R. Seelaus & Co., LLC (“RSCO”), a Securities and Exchange Commission registered, FINRA member securities broker-dealer. If you so choose, you may work with one of these dually registered investment adviser representatives in his or her separate capacity as a registered representative of RSCO. When acting in his or her separate capacity as a registered representative of RSCO, your Seelaus AM investment adviser representative has the ability to buy or sell, for a commission, general securities products such as stocks, bonds, mutual funds, exchange-traded funds, and variable annuity and variable life products to you in a separate commission-based brokerage account. As a registered representative of RSCO, your Seelaus AM investment adviser representative has the ability to suggest that you implement investment advice by purchasing securities products through a commission-based brokerage account in addition to, or in lieu of, a fee-based investment advisory account. This ability to receive commissions in lieu of a fee-based compensation structure creates a potential conflict of interest, as a dually registered representative has an incentive to recommend products for which he or she can receive a commission in his or her separate capacity as a registered representative of a securities broker-dealer. Consequently, the objectivity of the advice rendered to you could be biased.

You are under no obligation to use the services of your Seelaus AM representative in this separate capacity of registered representative or to use RSCO to implement securities transactions. If you choose to have your Seelaus AM representative implement securities transactions in their separate capacity as a registered representative of the broker-dealer, they must use RSCO. Prior to effecting any such transactions, you are required to establish a separate account with RSCO. The commissions charged by RSCO may be higher or lower than those charged by other broker/dealers. In addition, registered representatives of RSCO may also receive additional ongoing 12b-1 fees for mutual fund purchases from mutual fund companies during the period that you maintain mutual fund investments in the separate commission-based brokerage account at RSCO.

### **Insurance Agent**

If you so choose, you may work with your Seelaus AM investment adviser representative in his or her separate capacity as an insurance agent for RSC Financial Products LLC, an affiliated insurance agency. When acting in his or her separate capacity as an insurance agent, your Seelaus AM investment adviser representative may sell, for commissions, general disability insurance, life insurance, annuities, and other insurance products to you. As such, your Seelaus AM investment adviser representative, in his or her separate capacity as an insurance agent, may suggest that you implement his or her insurance recommendations by purchasing disability insurance, life insurance, annuities, or other insurance products. This receipt of commissions creates an incentive for the representative to recommend those products for which your Seelaus AM investment adviser representative will receive a commission, in his or her separate capacity as an insurance agent. Consequently, the advice rendered to you could be biased. You are under no obligation to implement any insurance or annuity transaction through your Seelaus AM investment adviser representative.

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

Seelaus AM has established a Code of Ethics for all supervised persons which memorializes the high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to, among other things, confidentiality of client information and restrictions of acceptance of significant gifts. Clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Seelaus AM through Investor Relations at [ir@seelausam.com](mailto:ir@seelausam.com).

### **Principal Transaction**

Seelaus AM directs trades to R. Seelaus & Co., LLC (RSCO) who acts as principal, buys securities from (or sells securities to) our clients in regard to certain MBS restructuring transactions (see; Restructuring Transactions below). These transactions present a conflict of interest as both Seelaus AM employees as well as RSCO earn transaction fees (mark-ups or mark-downs) from such transactions and has an incentive to execute client orders in this manner. Seelaus AM addresses this conflict in the following manner:

1. Seelaus AM will only trade as principal when Seelaus AM believes the transaction is in the best interest of our clients;
2. Seelaus AM believes the transaction fulfills the company's duty of best execution with respect to the particular transaction; and
3. Prior to the completion of such a trade Seelaus AM shall make disclosures to our affected clients regarding:
  - a. the price of the security,
  - b. other best quoted prices,
  - c. any commission, mark-up, or mark-down and,
  - d. obtain our client's consent.

### **Agency Cross Transactions**

An Agency cross transaction for an advisory client occurs when we, or one of our affiliates, acts as a broker for a transaction in which one of our advisory clients is on one side of the transaction and another person (not an advisory client) is on the other side of the transaction. We may, when we consider the transaction to be in a client's best interest, execute such transactions. Seelaus AM may receive compensation from each party to the transaction, and would therefore have a conflict of interest. Clients may revoke the authorization to effect agency cross transactions at any time by providing us with written notice. In circumstances where we execute an agency cross transaction, we undertake to confirm that the buyer and seller are not related parties and that the transactions are executed at market price. We will review all trades executed as agency cross for compliance with our best execution policy.

### **Brokered Cross Transaction**

It is the policy of Seelaus AM to permit a "Brokered-Cross Transaction" if the advisor believes that it is in the mutual best interest of each advisory client. All Brokered Cross transactions are routed to external broker dealers who will execute the brokered cross in an arms-length transaction. The external broker may charge a commission for performing this service to earn an appropriate spread to cover ticket charges plus a reasonable compensation for their services. The selection of external broker will be based on a variety of factors including but not limited to the amount of commission charged, the qualification, experience, and ability of the broker to conduct brokered crosses. The external broker may facilitate the brokered cross at the last reported sales price of the security as determined by an independent pricing source or some alternate basis which provides a superior execution to each client such as with the midpoint between bid and ask prices. Each brokered cross transaction is facilitated on a facts and circumstances basis for which documentation of each trade will be maintained. Of paramount importance in recommending a Brokered Cross is the avoidance of conflicts of interest. Seelaus AM will exercise due care in the selection of an experienced external broker to fill the desired trade on a case by case basis and without enriching one client over another by charging inequitable commission or other fees.

### **Cross Transactions**

A "cross transaction" refers to a transaction in which an adviser causes the purchase and sale of a particular security between two or more client accounts. Cross transactions pose a potential conflict when determining the price for the transaction if we determine an execution price that favors one account over the other. Seelaus AM endeavors to eliminate this conflict by executing all cross transactions consistent with its best execution obligation. Typically, cross trades either

provide liquidity for clients for securities that are not regularly offered in the open market and/or reduce the spread between the bid and ask price for the security, thereby providing a better execution price for clients than otherwise is available in the open market. We maintain a record of all cross transactions and disclose such transactions to clients as necessary. Clients may revoke the authorization to effect cross transactions at any time by providing us with written notice.

### **Restructuring Transactions**

Seelaus AM has three employees who may utilize their employment with RSCO to assist in executing MBS bond-restructuring transactions. These specific transactions may generate revenue for RSCO and Seelaus AM employees in their capacity with RSCO. This creates a potential conflict of interest. These bond-restructuring transactions are generally limited to; new issue CMOs, RE-REMICS and MACR and other Exchange Class exchanges (all mortgage backed securities or “MBS”). RSCO would take an economic interest in an MBS bond, from this bond a restructuring would occur to create two or more new bonds, where the new bonds equal the sum or great than the sum of the original bond. The pricing used for one of the component bonds has an effect on the pricing of the other component bonds. RSCO would work with a third- party Broker Dealer who has an open shelf with a government-sponsored enterprise (“GSE”) (e.g., Fannie Mae, Freddie Mac or Ginnie Mae) to facilitate the transactions. The third-party Broker Dealer will ultimately take ownership of the base bond, execute the restructuring and deliver to RSCO and/or Seelaus AM client’s custodians the new bonds. These transactions occur when Seelaus AM identifies a security that once restructured, one or more of the new bonds are deemed suitable investments for Seelaus AM clients. When one of the new bonds created is not a suitable investment for Seelaus AM clients, RSCO will sell the bonds to a non-Seelaus AM client. Identifying and executing these transactions assists Seelaus AM in purchasing suitable bonds for Seelaus AM clients that are otherwise unavailable in the market.

Seelaus AM’s Policies and Procedures permit personal trading by employees, provided that transactions are pre-cleared in advance and copies of personal brokerage statements are sent to the Compliance Department. Securities transactions in employee and employee related accounts for accounts held at Seelaus AM’s clearing firm are reported on daily surveillance reports reviewed. The balance of personal transactions held at other financial institutions are monitored through a review of personal account brokerage statements received. It is the employee’s responsibility to ensure that the CCO receives all personal account brokerage statements, confirmations, and / or trade advices in a timely manner and for the pre-clearance of personal account trades.

All outside personal brokerage accounts must be approved by the CCO, or qualified designee, in advance of opening accounts a new account or upon hire if the employee held a pre-existing personal account relationship.

Employees are prohibited from purchasing, selling or recommending the purchase or sale of a security for any account while they are in possession of material non-public information. If any employee comes into possession of any material inside information, they are obligated to bring such information to the attention of the CEO, CCO and/or CIO.

## **Item 12 Brokerage Practices**

As part of its fiduciary duty to clients, Seelaus AM has an obligation to seek the best price and execution of client transactions when Seelaus AM is in a position to direct brokerage transactions. While not defined by statute or regulation, “best execution” generally means the execution of client trades at the best net price considering all relevant circumstances. Seelaus AM will seek best execution with respect to all types of client transactions, including: equities, fixed income, options, futures and any other types of transactions that may be made on behalf of clients.

### **Directed Brokerage.**

Seelaus AM accepts directed brokerage arrangements (where a client “directs” that transactions be done through a particular broker-dealer). Clients who direct Seelaus AM to use a particular broker-dealer should be aware that such direction may result in the client paying higher commissions, receiving less favorable pricing or not receiving best execution on their trades.

Seelaus AM “aggregates” orders for the purchase and/or sale of securities for client accounts, whenever possible, to achieve “best execution” as described above.

## **Item 13 Review of Accounts**

Client accounts are reviewed periodically. Clients are encouraged to communicate any changes in their financial situation that may have an impact on their portfolio investment objectives. Reviews directly with clients are provided on a requested basis.

Internally, client accounts are reviewed rigorously on a quarterly basis. The review will include (but is not limited to) the following:

1. Account performance
2. Suitability of investments compared with stated investment objectives
3. Trading and rebalancing activity
4. Contribution and withdrawal activity
5. Changes in account profile
6. Review of the Investment Advisory Contract (“IAC”)
7. Review of any standing instructions

Reviews are conducted by approved reviewers (CIO, CEO, CCO) are further discussed with each relevant representative and signed off by our CCO.

Account reviews may also be triggered by market events, rebalancing of securities positions, and/or a change in a client’s financial situation, or by client request.

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

Seelaus AM does not receive an economic benefit from investment advice or other Advisory services provided to clients by outside firms.

Third Party Solicitor: Seelaus AM may enter into third party Solicitor's agreements. The Solicitor will perform its responsibilities in accordance with the instructions of Seelaus AM and the Investment Advisers Act and the rules thereunder including Rule 206(4)-3.

## **Item 15 Custody**

Under government regulations, Seelaus AM is deemed to have custody of client assets if a client authorizes us to instruct any custodian to deduct our advisory fees directly from your account. The custodian on your account maintains physical custody of your assets. Clients will receive account statements directly from their designated custodian at least quarterly. They will be sent to the email or postal mailing address provided to the custodian. Clients should carefully review those statements promptly upon receipt. Seelaus AM urges all clients to compare custodian statements to the periodic account statements/portfolio reviews received from us.

Seelaus AM is also deemed to have custody of client assets through our role as GP and advisor to six private funds (Sunnymeath Partners, Ocean Partners, Edgewood Partners, Navesink Partners and Sheraton Partners) and through our wholly owned affiliate Granite Springs Total Return GP, LL serving as GP to the Granit Springs Total Return Fund. The funds are independently audited on an annual basis and investors will receive audited fund financial statements within 120 days of the fund's fiscal year end. The custodian of the funds maintains physical custody of the assets. Clients will receive account statements directly from the administrator or custodian on a quarterly basis.

## **Item 16 Investment Discretion**

Seelaus AM typically accepts discretionary authority to manage investment accounts on behalf of clients. Discretion is exercised within the scope of the client's investment objectives and is consistent with the agreed upon strategy in place. Before accepting investment discretion, Seelaus AM requests that clients execute appropriate legal documentation that authorizes the Firm to have discretion in the purchase and sale of securities but restricts cash withdrawals to those requested on behalf of the client and with regard to payment of quarterly investment advisory fees.

## **Item 17 Voting Client Securities**

Seelaus Asset Management, LLC may act as an investment manager for advisory clients, including clients who are governed by the Employment Retirement Income Security Act (ERISA). As an investment manager and a fiduciary with special responsibilities under ERISA, and as a matter of policy, Seelaus Asset Management, LLC is responsible for acting solely in the interests of the plan participants and beneficiaries. Seelaus Asset Management, LLC's policy includes managing client assets consistent with the "prudent man rule," exercising proxy voting authority if not retained by a plan fiduciary, maintaining any ERISA bonding that may be required, and obtaining written investment guidelines/policy statements, as appropriate. Copies of Seelaus AM's proxy voting policies and procedures are available upon request, please contact David Zack, CCO.

ERISA imposes duties on investment advisers that may exceed the scope of an adviser's duties to its other clients. For example, ERISA specifically prohibits certain types of transactions with ERISA plan clients that are permissible (with appropriate disclosure) for other types of clients. Under Department of Labor guidelines, when the authority to manage plan assets has been delegated to an investment manager, the manager has the authority and responsibility to vote proxies, unless a named fiduciary has retained or designated another fiduciary with authority to vote proxies. In instances where an

investment manager's client agreement is silent on proxy voting authority, the investment manager would still have proxy voting authority. (Plan document provisions supersede any contractual attempt to disclaim proxy authority. In the event, plan documents are silent and an adviser's agreement disclaims proxy voting, the responsibility for proxy voting rests with the plan fiduciary(s). In certain instances, the Internal Revenue Code may impose requirements on non-ERISA retirement accounts that may mirror ERISA requirements.

Seelaus Asset Management, LLC has adopted various procedures to implement the firm's policy and reviews to monitor and ensure the firm's policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

A designated person or proxy committee for overseeing that any proxy voting functions are properly met and that ERISA plan client proxies are voted in the best interests of the plan participants.

Seelaus AM attempts at all times to manage client accounts solely in the best interest of the recipients or beneficiaries of the funds it is investing. Industry standards of care, skill, prudence and diligence are brought to bear on every investment action. This philosophy of prudence is applied to proxy voting as well. When Seelaus AM purchases a stock, it is focusing on the ability of the company's board of directors and senior management to improve shareholder value. However, the confidence in management shown by Seelaus AM' purchase of the stock does not transfer to automatic voting procedures whereby Seelaus AM "rubber stamps" its wishes on the proxy ballot.

Seelaus AM views the proxy as an economic instrument, and generally makes proxy voting decisions based on financial criteria when present. At the same time, decisions will, whenever possible, protect the rights of its clients as shareholders. Thus, in making a proxy voting decision, two primary considerations are in effect: first, the economic impact of the proposal; and second, the impact of the proposal on shareholder rights. Seelaus AM does not promise to vote proxies and is selective in when it decides to exercise its right to vote on companies' proxies. In the case when clients are fund registered under the Investment Company Act of 1940, Seelaus AM does promise to vote companies' proxies and will maintain records of its voting, in accordance with its document retention policy. Additionally, should there be a situation whereby there is a conflict of interest between Seelaus AM as adviser and the interests of the 1940 Act fund, Seelaus AM will vote its proxy with the interest of the client being more important than that of the adviser as such, there could exist a situation whereby the adviser votes differently for certain clients.

Clients may also obtain information from the company's compliance officer about when Seelaus AM voted any proxies against management on behalf of their account(s).

### **Proxy voting:**

(i) Copies of all policies and procedures concerning proxy voting.

(ii) A copy of each proxy statement that the firm receives regarding client securities. A third party may be relied upon to make and retain a copy of a proxy statement (provided that the firm has obtained an undertaking from the third party to provide a copy of the proxy statement promptly upon request) or may rely on obtaining a copy of a proxy statement from the Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

(iii) A record of each vote cast by the firm on behalf of a client. A third party may be relied upon to make and retain a record of the vote cast (provided that the firm has obtained an undertaking from the third party to provide a copy of the record promptly upon request).

(iv) Copies of all documentation used that was material to deciding on how to vote proxies on behalf of a client or that memorializes the basis for that decision. A copy of each written client request for information on how the firm voted proxies on behalf of the client, and a copy of any written response by the firm to any (written or oral) client request for information on how the proxies were voted.

## **Item 18 Financial Information**

Seelaus AM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

The Firm does not have any financial commitment that would impair its ability to fulfill contractual and fiduciary commitments to clients.

Neither Seelaus AM nor any of its Principals have been the subject of a bankruptcy petition at any time in the past ten years.

## **Item 19 Business Continuity Plan**

Seelaus AM has a business continuity and contingency plan in place designed to respond to significant business disruptions. These disruptions can be both internal or external. Internal disruptions will impact our ability to communicate and do business, such as in the case of a fire in the office building. External disruptions will prevent the operation of the securities markets or the operations of a number of firms, such as in the case of an earthquakes, hurricanes, terrorist attack of other wide-scale, disruptions.

Our continuity and contingency plan has been developed to safeguard employees' lives and firm property, to allow a method of making financial and operational assessments, to quickly recover and resume business operations, to protect books and records, and to allow clients to continue transaction business.

The following is a summary of what is included in our plan:

- Alternate locations to conduct business
- Hard and electronic back-ups of records
- Alternate means of communications with employees, clients, critical business constituents and regulators

Our business continuity and contingency plan is reviewed and updated on a regular basis to ensure that the policies in place are current, sufficient, and operational.

## Item 20 Privacy Disclosure Document

### **R. SEELAUS & CO., LLC GROUP PRIVACY POLICY**

The following describes how R. Seelaus & Co., LLC and its affiliates Seelaus Asset Management LLC, and RSC Financial Products LLC, (“R. Seelaus & Co., LLC Group”) handle your personal information, and what steps we take to protect your privacy. This policy applies to current and former customers. We do not use your personal information for marketing purposes.

#### **Accessing Information**

Access to customer information is authorized for official business purposes only. It is based on our need to know such information to assist your broker or advisor in providing products and services to you, or to conduct R. Seelaus & Co., LLC Group business. R. Seelaus & Co., LLC Group requires its employees and Pershing LLC (clearing agent) who have access to customer information to protect it and keep it confidential.

#### **Collect Information to Conduct Business**

R. Seelaus & Co., LLC Group collects information about you to help your broker or advisor serve your financial needs, provide customer service, offer new products or services, and fulfill legal and regulatory requirements. The type of information that your broker provides to R. Seelaus & Co., LLC Group varies according to the products or services you request through your broker or advisor, and includes but is not limited to:

- Information included on your application and related forms (such as name, address, Social Security number, net worth and income);
- Information about your relationships with your broker or advisor (such as products or services purchased, account balances and payment history); and
- Information from visitors to R. Seelaus & Co., LLC Group’s websites (such as that provided through online forms, site visitor-ship data and online information collecting devices known as "cookies.")

#### **Security Standards**

R. Seelaus & Co., LLC Group continues to assess new technology to evaluate its ability to provide additional protection of your personal information. We safeguard this information in accordance with federal standards and established security standards and procedures. Some of the measures we implement include use of physical, electronic and procedural safeguards.

#### **Sharing Information**

In the course of conducting business, we may disclose some or all of the previously described information about you to our clearing agent, Pershing, LLC and other businesses including non-affiliated third parties, as allowed by law, for the purpose of:

- Providing customer service or account maintenance;
- In response to a subpoena, to prevent fraud, or to comply with an inquiry by a government agency or regulator, and
- To perform services for us or on our behalf to develop or maintain software.

If you wish to limit our sharing of information about you as described in this notice, you may do so by contacting us at the below phone number or address.

*R. Seelaus & Co., LLC | 25 Deforest Avenue | Suite #304 | Summit, NJ 07901 | T: (800) 922-0584 | F: (908) 273-7730 | [www.rseelaus.com](http://www.rseelaus.com)*

