

**Policies and Procedures Manual**  
**Coastal Investment Advisors**

**Effective: May 01, 2021**

# TABLE OF CONTENTS

1 INTRODUCTION.....	1
1.1 Employee Defined .....	1
2 NEW CLIENTS AND ANTI-MONEY LAUNDERING.....	2
Introduction .....	2
2.1 Compliance Reference Chart .....	2
2.2 Policy .....	2
2.3 Procedures .....	3
2.3.1 Opening Client Accounts .....	3
2.3.2 Investment Advisory Contract .....	8
2.3.3 Privacy Notice.....	8
2.3.4 Form ADV Delivery.....	8
2.3.5 Relationship Summary (Form CRS) Initial Delivery .....	9
2.3.6 Approval and Delivery of Client Account Forms.....	9
2.3.7 Funding Account .....	9
2.3.8 Detecting and Preventing Money Laundering .....	10
2.4 Form ADV Disclosure .....	12
2.5 Books and Records .....	13
3 EXISTING CLIENTS AND PRIVACY PROCEDURES .....	14
Introduction .....	14
3.1 Compliance Reference Chart .....	14
3.2 Policy .....	15
3.3 Procedures .....	15
3.3.1 Account Statements .....	15
3.3.2 ERISA Reporting .....	15
3.3.3 Address Changes .....	15
3.3.4 Client Data.....	16
3.3.5 Client Communications .....	16
3.3.6 Client Complaints .....	19
3.3.7 Errors.....	20
3.3.8 Relationship Summary (Form CRS) Annual Delivery.....	20
3.3.9 Annual Form ADV Delivery .....	20
3.3.10 Privacy Procedures .....	22
3.3.11 Former Clients.....	26
3.3.12 Affiliate Marketing.....	26
3.3.13 Lost Clients.....	30
3.3.14 Selective Disclosure of Portfolio Information.....	30
3.3.15 Identity Theft Prevention Program.....	30
3.3.16 Cybersecurity .....	37
3.3.17 FATCA.....	37
3.4 Form ADV Disclosure .....	39
3.5 Books and Records .....	39
4 ADVISORY CONTRACT & FEES.....	41
Introduction .....	41
4.1 Compliance Reference Chart .....	41
4.2 Policy .....	41
4.3 Procedures .....	42
4.3.1 Investment Advisory Contract Provisions.....	42
4.3.2 Advisory Fees.....	45
4.3.3 Investment Guidelines.....	47
4.3.4 Updating the Investment Advisory Contract.....	47
4.3.5 Expenses.....	47
4.3.6 Advisory Fee Billing.....	48
4.4 Form ADV Disclosure .....	48
4.5 Books and Records .....	48

5 INVESTMENT MANAGEMENT .....	50
Introduction .....	50
5.1 Compliance Reference Chart .....	50
5.2 Policy .....	51
5.3 Procedures .....	51
5.3.1 Fiduciary Duties Owed to Clients .....	51
5.3.2 Fraud .....	52
5.3.3 Suitability .....	52
5.3.4 SMA Programs .....	55
5.3.5 Cash Management .....	56
5.3.6 Conflicts of Interest .....	57
5.3.7 ERISA .....	59
5.3.8 Valuation Procedures .....	68
5.3.9 Rule 144 Securities .....	73
5.3.10 Proxy Voting Policies and Procedures .....	74
5.3.11 Inadvertent Investment Company .....	76
5.3.12 Sub-Advisers .....	76
5.3.13 Hedge Funds .....	77
5.3.14 Due Diligence .....	80
5.4 Form ADV Disclosure and Other Disclosure .....	83
5.5 Books and Records .....	84
6 TRADES .....	85
Introduction .....	85
6.1 Compliance Reference Chart .....	85
6.2 Policy .....	86
6.3 Procedures .....	86
6.3.1 Trade Tickets .....	86
6.3.2 Trade Confirmations .....	89
6.3.3 Trade Review and Reconciliation .....	89
6.3.4 Agency Trades .....	90
6.3.5 Agency Cross Trades .....	92
6.3.6 Cross Trades .....	93
6.3.7 Principal Trades .....	94
6.3.8 Aggregation of Securities Trades .....	96
6.3.9 Trade Allocation .....	97
6.3.10 Proprietary Trades .....	101
6.3.11 Trade Errors .....	101
6.4 Form ADV Disclosure .....	102
6.5 Books and Records .....	102
7 BROKERAGE .....	105
Introduction .....	105
7.1 Compliance Reference Chart .....	105
7.2 Policy .....	106
7.3 Procedures .....	106
7.3.1 Best Execution Procedures .....	106
7.3.2 Parking .....	108
7.4 Form ADV Disclosure .....	109
7.5 Books and Records .....	109
8 CUSTODY .....	111
Introduction .....	111
8.1 Compliance Reference Chart .....	111
8.1.1 Determination of Whether Coastal has Custody of Accounts .....	112
8.2 Policy .....	112
8.3 Procedures .....	112
8.3.1 Custody Determination .....	112
8.3.2 Procedures for Types of Custody Arrangements .....	114
8.3.3 Unaffiliated Custody Arrangements .....	114
8.3.4 Self-Custody Arrangement .....	115

8.3.5 Related Person Custody Arrangement.....	115
8.3.6 Hedge Fund Custody Arrangement.....	117
8.3.7 Mutual Fund Shares Arrangements .....	119
8.3.8 Privately Offered Securities Custody Procedures .....	119
8.3.9 Constructive Custody .....	120
8.3.10 Inadvertent Receipt of and Temporary Custody of Client Assets.....	120
8.3.11 Account Statements .....	121
8.3.12 Surprise Examinations .....	121
8.3.13 Internal Control Reports .....	123
8.3.14 Independent Public Accountant.....	123
8.3.15 Client Representatives .....	124
8.3.16 Overdrafts.....	124
8.3.17 Unusual Account Activity.....	125
8.3.18 Authorization .....	125
8.3.19 Commodities/Futures .....	125
8.3.20 Swaps.....	125
8.3.21 Audited Balance Sheet.....	125
8.3.22 Additional SEC Best Practices .....	125
8.3.23 SEC Q&As.....	126
8.4 Form ADV Disclosure .....	126
8.5 Books and Records .....	126
9 MARKETING.....	128
Introduction.....	128
9.1 Compliance Reference Chart .....	128
9.2 Policy .....	129
9.3 Procedures .....	129
9.3.1 Advertisements and Marketing Pieces Approval Procedures .....	129
9.3.2 Advertisements and Marketing Pieces Content Review.....	130
9.3.3 Types of Marketing Activities.....	130
9.3.4 Requests of Performance Information by Consultants, Clients and Others .....	139
9.3.5 Third-Party Consultants.....	139
9.4 Form ADV Disclosure .....	139
9.5 Books and Records .....	140
10 EMPLOYEES.....	141
Introduction.....	141
10.1 Compliance Reference Chart .....	141
10.2 Policy .....	142
10.3 Procedures .....	142
10.3.1 New Employees .....	142
10.3.2 Code of Ethics .....	143
10.3.3 Insider Trading Procedures .....	148
10.3.4 Employee Training Education [Effective Jan. 1 2022].....	152
10.3.5 Outside Business Activities .....	153
10.3.6 Designations.....	153
10.3.7 Adviser Representative Prohibited Activities.....	154
10.3.8 Legal or Regulatory Proceedings .....	155
10.3.9 Unregistered Employees .....	155
10.3.10 Employees Who Are Registered Representatives of Broker-Dealers .....	156
10.3.11 Electronic Communications.....	157
10.3.12 Gift and Entertainment Policy.....	160
10.3.13 Foreign Anti-Corruption Policy .....	164
10.3.14 Terminated Employees, Officers and Directors.....	168
10.3.15 Employee, Officer and Director Information .....	168
10.3.16 Pay-to-Play Activities.....	168
10.3.17 Social Media Procedures .....	177
10.3.18 Annual Personnel Review .....	180
10.4 Form ADV Disclosure .....	180
10.5 Books and Records .....	181

10.5.1 Code of Ethics Records.....	181
10.5.2 Employee Records.....	181
10.5.3 Pay-to-Play Records.....	181
11 REGISTRATION AND FILINGS.....	183
Introduction.....	183
11.1 Compliance Reference Chart.....	184
11.2 Policy.....	184
11.3 Procedures.....	185
11.3.1 Investment Adviser Status.....	185
11.3.2 SEC vs. State Registration and AUM Calculation.....	190
11.3.3 IARD Registration.....	193
11.3.4 Form ADV.....	195
11.3.5 Amendments to Form ADV.....	204
11.3.6 Regulation BI.....	207
11.3.7 Adviser Representative Registration.....	210
11.3.8 Status Under Other Laws and Regulations.....	214
11.3.9 Large Traders.....	224
11.3.10 Hedge Fund Adviser Filings.....	225
11.3.11 Schedule 13F Filings.....	228
11.3.12 Schedule 13D and 13G Filings.....	228
11.3.13 Form 3, 4, and 5 Filings.....	230
11.3.14 Execution of Signatures on Filings.....	231
11.3.15 Form SHC Filings.....	231
11.3.16 Exempt Reporting Advisers.....	233
11.3.17 U.S. Department of Commerce BE-10 Filing Requirements.....	234
11.4 Books and Records.....	235
12 BUSINESS.....	236
Introduction.....	236
12.1 Compliance Reference Chart.....	236
12.2 Policy.....	237
12.3 Procedures.....	237
12.3.1 Business Accounting and Financial Condition.....	237
12.3.2 Taxes.....	238
12.3.3 Disaster Recovery Plan.....	238
12.3.4 Insurance.....	238
12.3.5 Bonds.....	239
12.3.6 Business Formalities.....	239
12.3.7 Political Contributions.....	239
12.3.8 Offices.....	240
12.3.9 Transition Plan.....	240
12.4 Form ADV Disclosure.....	241
12.5 Books and Records.....	241
13 BOOKS AND RECORDS.....	242
Introduction.....	242
13.1 Compliance Reference Chart.....	242
13.2 Policy.....	242
13.3 Procedures.....	242
13.3.1 Required Records.....	242
13.3.2 Record Retention.....	247
13.3.3 Method of Recordkeeping.....	247
13.3.4 Manner of Recordkeeping.....	248
13.3.5 Records Destruction Policy.....	248
13.4 Books and Records.....	249
14 COMPLIANCE.....	250
Introduction.....	250
14.1 Compliance Reference Chart.....	250
14.2 Policy.....	250
14.3 Procedures.....	251

14.3.1 Compliance Procedures .....	251
14.3.2 Chief Compliance Officer .....	251
14.3.3 Senior Management .....	252
14.3.4 Service Providers .....	252
14.3.5 Supervisory System .....	253
14.3.6 Audits .....	257
14.3.7 Resources .....	259
14.3.8 Independent Review of Compliance Program .....	259
14.3.9 Regulatory Inspections .....	259
14.3.10 Compliance Manual Violations .....	260
14.3.11 Risk Assessment .....	261
14.3.12 CCO-CEO Communications .....	262
14.3.13 Amendments to Compliance Procedures .....	262
14.3.14 Forensic Testing Guidelines .....	262
14.3.15 On-Site Branch Office Reviews .....	266
14.4 Form ADV Disclosure .....	266
14.5 Books and Records .....	267

# 1 INTRODUCTION

Coastal has developed this Compliance Manual to ensure its compliance with applicable securities laws and regulations when it engages in the business of providing investment management services to clients. The Compliance Manual sets forth Coastal's policies and procedures designed to (1) prevent violations from occurring, (2) detect violations that have occurred, and (3) correct promptly any violations that have occurred. In addition, the Compliance Manual designates supervisors and describes their supervisory responsibilities over the firm's personnel.

Coastal is a registered investment adviser and has investment management responsibility for various clients. Coastal requires full compliance with all laws and regulations governing the provision of advisory services to clients, including Rule 206(4)-7 under the Investment Advisers Act of 1940, which requires an SEC-registered investment adviser to maintain written policies and procedures designed to prevent violations of such laws and regulations. It is also the policy of Coastal to conduct its business in a manner that meets the highest standards of commercial honor and just and equitable principles of trade. Inherent in all client relationships is the fundamental responsibility to deal fairly with clients.

Coastal depends on its employees and officers to provide high quality investment advisory services to clients, in a manner that is ethical, fair and equitable to all concerned. Every employee of Coastal is required to read the Compliance Manual, maintain a copy of the Compliance Manual, and sign a statement acknowledging receipt of the Manual. This statement is part of the Compliance Questionnaire. Coastal will maintain a copy of the Questionnaire in each employee's personnel file. Failure to comply fully with the policies and procedures contained in the Compliance Manual and all applicable securities laws may jeopardize the individual, his or her supervisors, and Coastal itself.

Coastal will review, no less frequently than annually, the adequacy and effectiveness of the policies and procedures contained in this Compliance Manual. The Compliance Manual will be periodically revised and supplemented. Each page of this Compliance Manual remains in effect until superseded by a revised version. When changes are made, the Compliance Manual will be updated electronically.

Each employee is required to:

1. Know and understand the contents of the Compliance Manual;
2. Ensure that those persons he or she supervises has a copy of the Compliance Manual and knows and understands its contents;
3. Maintain the Compliance Manual in a place that allows easy reference; and
4. Contact his or her supervisor or the Chief Compliance Officer when he or she suspects or detects violations of the Compliance Manual.

This Compliance Manual belongs to Coastal and may not be given to any person, other than an employee of Coastal, without the permission of the Chief Compliance Officer.

## 1.1 Employee Defined

This manual may refer to individual agents and associated persons of Coastal as 'employees.' All agents of Coastal are independent contractors, as are their respective employees and contractors. Nothing contained herein should be construed as creating an employer/employee relationship between Coastal and any individual, nor should the same be construed as evidence of any such relationship for any purpose whatsoever.

## 2 NEW CLIENTS AND ANTI-MONEY LAUNDERING

### Introduction

[USA PATRIOT Act]

Opening client accounts raises important compliance considerations primarily related to the intake of information and its management. Obtaining reliable client information is critical to an advisory firm's ability to make suitable investment decisions for clients, as well as to have an effective anti-money laundering program.

While the PATRIOT Act does not currently apply to the Firm, it is the Firm's policy to strictly prohibit its employees and any person associated with it from engaging in or assisting in the laundering of money or any activity associated with the funding of terrorist or other illegal activities. The Firm is firmly committed to complying with economic sanctions imposed by the U.S. government, including OFAC, and reporting and assisting in the prosecution of any persons who participate in, assist others, or have any knowledge whatsoever of any money laundering or terrorist funding activities.

Investment advisers opening new accounts must continue to comply with the applicable rules under the Investment Advisers Act of 1940, including the requirement to deliver the adviser's Firm Brochure (Part 2A) and Brochure Supplements (Part 2B) to a new client.

### 2.1 Compliance Reference Chart

[USA PATRIOT Act; Investment Advisers Act of 1940 Rule 204-3]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Operations</li><li>• Legal</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Each time Coastal opens a new client account</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Rule 204-3 under the Investment Advisers Act of 1940</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• Various anti-money laundering related records described herein</li></ul>
<b>Audit</b>	<ul style="list-style-type: none"><li>• Coastal audits its New Clients and Anti-Money Laundering Procedures annually.</li></ul>

### 2.2 Policy

It is Coastal's policy to accept only those clients whose source of wealth and funds can be reasonably established to be legitimate, to prevent persons from using Coastal and the services it offers to engage in money laundering and other criminal activity, to maintain accurate, current and complete information about each



client, and to deliver to new clients a copy of the Firm's Brochure (Part 2A) and Brochure Supplements (Part 2B).

## **2.3 Procedures**

### **2.3.1 Opening Client Accounts**

The Designated Supervisor shall ensure that the following steps are followed each time Coastal opens a new client account:

#### **2.3.1.1 Forms/Applications**

The Adviser Representative will instruct each new client to complete Coastal's advisory Agreement and the account application form of the broker-dealer or other financial institution that maintains clients' securities accounts ("Brokerage Account Application"). The Adviser Representative shall be responsible for ensuring that each of the items in these documents is completed, including signing and dating each of these forms.

For accounts that **do not** include a Brokerage Account Application for Wells Fargo Clearing Services, LLC, the Adviser Representative shall also instruct each new client to complete Coastal's Advisory Account Information Form.

#### **2.3.1.2 Client Identity**

The Adviser Representative will take reasonable measures to establish the identity of clients and beneficial owners of securities in client accounts. Identification documents must be current at the time of the account opening. At a minimum, the Adviser Representative will obtain all information and documentary evidence required to open an account by the custodial institution's CIP and AML programs.

##### **2.3.1.2.1 All Clients**

The Designated Supervisor shall permit Coastal to accept a new client only if Coastal has obtained the following information about the client:

- name;
- residential or business address;
- telephone number;
- e-mail address;
- purpose for opening the account;
- anticipated account activity;
- annual income;
- estimated net worth;
- investment experience;
- marital status;
- number of dependents;
- occupation;
- risk tolerance;
- investment time horizon;

- liquidity needs;
- type of account;
- the account's custodian and location of the custodian;
- investment objective and strategy (e.g., global equity, high-yield, or aggressive growth);
- investment restrictions (if any);
- whether the account will be managed by sub-adviser(s) and, if so, the name of the sub-advisers;
- source of funds (including whether or not funds were from a broker-dealer account) and means of transfer of funds to open the account;
- whether the client is a related person, affiliated person or a proprietary account;
- whether or not the advisory fees will be paid directly by the client or will be deducted from the client's custody account;

#### **2.3.1.2.2 Natural Person Clients**

The Designated Supervisor shall permit Coastal to accept a natural person client only if Coastal obtains the following information about the person:

- age;
- social security number;
- occupation;
- employer;
- beneficiaries (if any);
- copy of filed IRS Form W-9 if a U.S. person and if required by FATCA or other applicable law or regulation;
- copy of filed IRS Form W-8 if a non-U.S. person and if required by FATCA or other applicable law or regulation; and/or
- copies of other forms for IRS reportable accounts (see <http://www.IRS.gov> for a list of such forms and filing requirements).

#### **2.3.1.2.3 Entity Clients**

The Designated Supervisor shall permit Coastal to accept a corporation, partnership, foundation or other client that is an entity only after:

- reviewing documentary evidence of the due organization and existence of such entity;
- noting its domicile;
- understanding the structure of the entity sufficiently to determine the source of the funds;
- identifying principal owner(s) of the entity's shares or beneficial interests;
- identifying who controls the entity;
- obtaining a signed corporate resolution or similar authorization that authorizes the opening of the account;
- obtaining a signed list of corporate officers or persons in similar capacity authorized to enter orders on behalf of the entity;
- copy of filed IRS Form W-9 of each U.S. investor if a U.S. fund with only U.S. investors and if required by FATCA or other applicable law or regulation;
- copy of filed IRS Form W-8 if an offshore fund and if required by FATCA or other applicable law or regulation; and/or
- copies of other forms for IRS reportable accounts (see <http://www.IRS.gov> for a list of such forms and filing requirements).

#### **2.3.1.2.4 Trust Clients**

The Designated Supervisor shall permit Coastal to accept a client formed as a trust only after:

- reviewing evidence of its due formation and existence, along with the identity of its trustee(s); and
- understanding the structure of the trust sufficiently to determine the source of the funds (e.g., settlor), person who controls the trust (e.g., trustee), and persons who have the power to remove the trustee.

#### **2.3.1.2.5 Retirement Plans**

The Designated Supervisor shall permit Coastal to accept a retirement plans as a client only after:

- reviewing evidence of its due formation and existence, along with the identity of its trustee(s) or other fiduciary; and
- understanding the plan document sufficiently to determine how the plan is to be managed; and
- forwarding the account opening package to Compliance for review and approval.

#### **2.3.1.2.6 Foreign Clients**

The Designated Supervisor shall permit Coastal to accept a foreign client only if Coastal obtains the following information about the person or entity:

- passport number and country of issuance,
- alien identification card number, or
- other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.

#### **2.3.1.2.7 Joint Accounts**

The Designated Supervisor shall permit Coastal to open a joint account only if such account:

- Clearly states whether it is with right of survivorship, tenancy in common or tenancy by the entirety; and
- Is the subject of a joint account agreement that sets forth rights of joint account holders with respect to the account (e.g., who may place orders or withdraw assets).

#### **2.3.1.2.8 Custodian and Guardianship for Minor Accounts**

[Uniform Gifts to Minors Act (UGMA); Uniform Transfer to Minors Act (UTMA)]

Generally, Coastal may not open an account for any person who has not attained the age of majority. However, custodial accounts may be opened under the following conditions:

- There is only one minor and one custodian for such account;
- The account is opened under the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfer to Minors Act (UTMA) and Coastal verifies which applies;
- Property transferred to the UGMA or UTMA account is a complete and irrevocable transfer of property to the minor (i.e., the transferor gives up all rights to the property); and
- Upon the minor reaching the age of majority in the particular state of residence, the custodian must transfer the custodial property to the minor.

#### **2.3.1.2.9 UTMA and UGMA Controls (Age of Majority)**

**IAR Responsibility:** It is the Investment Advisor Representative's responsibility upon opening a UTMA or UGMA account to take appropriate steps to calendar for the minor's reaching the age of majority in his/her home state, and, when age of majority is imminent, provide guidance to the custodian and/or former minor as requested or as needed by the applicable client in order to transition or liquidate the account assets.

**Supervision:** Coastal will monitor the age of majority in such accounts on a quarterly basis by running a report of all such accounts showing dates of birth of each account beneficiary. For beneficiaries approaching age of majority within that quarter, Coastal will provide the account custodian written notice of the upcoming age of majority and that the advisory agreement is terminated as of the date preceding the age of majority.

#### **2.3.1.2.10 Estate Accounts**

Prior to opening an estate account, Coastal shall obtain:

- A copy of the will;
- Certificate of letters testamentary;
- An affidavit of domicile; and
- A death certificate.

#### **2.3.1.2.11 Power of Attorney**

Clients of Coastal may grant power of attorney over their accounts to a third party. In such cases, Coastal shall require the client to complete a Power of Attorney, pursuant to the procedures set forth in the Advisory Contract & Fees chapter of this Manual, as well as any additional documents required by the account custodian.

#### **2.3.1.3 Verification**

The Advisor Representative shall verify the above stated forms of client identity within a reasonable time after the account is opened. The Advisor will verify the identity of the client by requesting and reviewing:

- unexpired government-issued identification, such as a driver's license or passport for individuals; or
- certified articles of incorporation, certificate of limited partnership, trust instrument or other organizational document or a government-issued business license for entities.

If such verification by documentation fails (e.g., the client is unable to provide the documentation), the Advisor may verify the identity by non-documentary means, including:

- directly contacting the client;
- independent verification of the client's identity through comparison of information provided by the client with information obtained from a consumer reporting agency, public database or other source;
- checking references with financial institutions; or
- obtaining a financial statement.

This information is evidenced on the brokerage account application for accounts held at Wells Fargo Clearing LLC. For all other accounts, evidence must be enclosed with the Advisory Account Information Form.

#### **2.3.1.4 Terrorist Lists**

Coastal Investment Advisors relies upon its affiliate, Coastal Equities, Inc. ("CEI"), for certain regulatory functions including a determination of whether prospective clients appear on the OFAC list when the client opens a brokerage account through CEI. (See sec. 2.3.8.3.1 Responsible Service Providers). Therefore, for advisory accounts in which a brokerage account has been opened through CEI, the Firm relies upon CEI's policies and procedures. The Chief Compliance Officer shall not permit Coastal to open a new account if the prospective client or client appears on any such list, or if an account has been opened, the account will be restricted.

Accounts which will maintain custody at a financial institution elsewhere require the Financial Advisor Representative to conduct a search on the OFAC search list at <http://apps.finra.org/RulesRegulation/OFAC/1/Default.aspx>. This link will take the advisor to the FINRA OFAC Search Tool. After entering the client's name it will return results on the same page. The Advisor Representative will print the search results and forward the OFAC search results as part of the Advisory Account Information Form to his or her supervisor as evidence that the client does not appear on any list of known or suspected terrorists or terrorist organizations, including the Specially Designated Nationals and Blocked Persons List prepared by the Office of Foreign Assets Control. The supervisor shall not permit Coastal to open a new account if the prospective client or client is on the list.

### 2.3.1.5 Unacceptable Accounts

[Uniform Gifts to Minors Act (UGMA); Uniform Transfer to Minors Act (UTMA)]

Coastal may not accept any of the following types of persons as clients:

- *Minors*: a person under the age of majority. Such clients may be accepted if the person is represented by a legal guardian and/or through the appropriate state's Uniform Gifts to Minors Act or Uniform Transfers to Minor Act.
- *Incompetent Persons*: a person who has been adjudged by a court or otherwise to be incompetent. Such clients may be accepted if the person is represented by a duly appointed guardian of the incompetent.
- *Clients with Fictitious Names*: the client must give his or her legal name.
- *Agent Acting for a Third Party*: no account will be opened through an agent for the client unless the client has given that agent the authority to engage in securities transactions on his or her behalf and such authority is documented and made available.
- *Blocked Persons on Government Lists*: no account will be opened for a person who appears on a government terrorist list, including the Specially Designated Nationals and Blocked Persons List.

### 2.3.1.6 Client Restrictions

Clients may ask that certain investment restrictions be placed on their accounts. It is the policy of Coastal to agree to client-imposed investment restrictions only if the clients and Coastal are able to agree upon restrictions that are clear and specific so that Coastal can avoid charges of non-compliance by the client. The following procedures shall be followed by Coastal to establish clear and objective client-imposed restrictions:

1. Where possible, ask client to provide a list of prohibited securities (e.g., Anheuser Busch, etc., instead of a list of types of prohibited securities ("sin stocks," etc.));
2. Where client insists on restrictions of types of securities, Coastal should demand as much written specificity as possible (e.g., brewing of alcoholic beverage or distribution of liquor, or both);
3. Confirm with client whether restriction applies to direct investments only, or indirect investments (such as ETFs) as well;
4. Confirm with client whether de minimis prohibited activities by companies are permissible and, if so, what percentage of that company's revenues or profits may be derived from such activity (e.g., up to 10% of revenues may be derived from the sale of alcoholic products);
5. Obtain permission from client to allow Coastal to utilize a third-party consultant or screening software to determine whether a particular company falls within a prohibited business;

6. Include a specific contractual provision in the advisory contract addressing prohibited investments that obligates Coastal only to make its best efforts to comply with the client restriction, and, if possible, carve out Coastal's obligation to indemnify the client if it invests client assets in prohibited securities; and
7. Distribute a list of the client restrictions to: (a) each portfolio manager managing assets of a client account subject to investment restrictions; and (b) the trading desk (if any). If Coastal employs a front-end trading system, program such system to block client trades in the prohibited securities.

### **2.3.2 Investment Advisory Contract**

Coastal will enter into a written investment advisory contract with each of its clients. Coastal generally will use its standard Investment Advisory Contract, which will satisfy the requirements set forth in the "Advisory Contract & Fees" chapter of this Compliance Manual. Clients placed in Wells Fargo proprietary managed programs will also execute a Wells Fargo Tri-Party agreement with Wells Fargo and Coastal. Clients placed with all other managed programs outside of Coastal must execute both a Coastal agreement as well as the required agreement of the third-party money manager or program.

### **2.3.3 Privacy Notice**

[SEC Regulation S-P]

Coastal shall provide a copy of its Privacy Notice to each individual who becomes a client ("customer" under the definition of Regulation S-P) of Coastal not later than the establishment of the advisory relationship, unless:

- establishing the client relationship is not at the client's election, or
- providing notice at such time would substantially delay the client's transaction and the client agrees to receive the notice at a later time, in either of which cases the Privacy Notice shall be provided within a reasonable time after establishment of the client relationship.

The content of the Privacy Notice and other procedures related to the privacy of client information are set forth in the "Existing Clients & Privacy Procedures" chapter of this Compliance Manual.

### **2.3.4 Form ADV Delivery**

The Advisor will deliver or cause to be delivered the Firm's Brochure (Part 2A) and, when appropriate, the applicable Brochure Supplements to a new client at the time he or she executes the Advisory Contract. Evidence of delivery is acknowledged in the Advisory Agreement executed by the client.

The new client shall receive the Brochure Supplement of each investment personnel who, with respect to such new client, will:

- formulate investment advice for the new client and has direct client contact; or
- make discretionary investment decisions for the new client's assets, even if such person does not have direct client contact.

The Advisor will not deliver a Firm Brochure or any Brochure Supplement to the following types of new clients:

- registered investment companies and business development companies;
- clients who receive only impersonal investment advice; and
- "Qualified Clients," as defined herein.

The following persons are "Qualified Clients" for purposes of the Brochure and Brochure Supplement delivery requirements:

- any executive officers, directors, trustees, general partners, or persons serving in a similar capacity, of Coastal; and
- any employees of Coastal (other than employees performing solely clerical, secretarial or administrative functions) who, in connection with their regular functions or duties, participate in the investment activities of Coastal and have been performing such functions or duties for at least 12 months.

If investment advice is provided by a team (i.e., two or more investment personnel) at Coastal, a new client shall receive:

- a Brochure Supplement for each team member of the team which consists of from two to five investment advisory personnel; or
- a Brochure Supplement of each five investment personnel who will have the most significant responsibility for the day-to-day advice provided to the new client if the team has more than five investment advisory personnel.

### **2.3.5 Relationship Summary (Form CRS) Initial Delivery**

In 2020, SEC-registered investment advisers will be required to deliver their relationship summaries (Form CRS) to all existing clients who are retail investors on an initial one-time basis within 30 days after the date Coastal Investment is first required to file its Relationship Summary with the SEC. The SEC designed the Relationship Summary to provide advisory clients with succinct information about the relationships and services the adviser offers, fees and costs that clients will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things.

To provide adequate notice and opportunity to comply with the Relationship Summary filing requirements, advisers that are registered, or investment advisers who have an application for registration pending, with the SEC prior to June 30, 2020 will have a period of time beginning on May 1, 2020 until June 30, 2020 to file their initial relationship summaries with the SEC.

Coastal Investment Advisors will deliver to each new retail client its current Relationship Summary (Form CRS) that meets the requirements set forth in the chapter *REGISTRATION AND FILINGS* of this Compliance Manual before or at the time Coastal Investment enters into an investment advisory contract with such retail client. See *Relationship Summary Delivery and Posting* in the *REGISTRATION AND FILINGS* chapter of this Compliance Manual for initial client delivery requirements.

### **2.3.6 Approval and Delivery of Client Account Forms**

Each new Client Account must be approved by the Adviser Representative's supervisor before a client's account is opened with Coastal.

After a new client has completed the Advisory Account Information Form (if needed), Investment Advisory Agreement, and appropriate Brokerage Account Application, the Adviser Representative will transmit the above documentation to his or her supervisor for review and approval. Approval is evidenced by signature of the supervisor on the Investment Advisory Agreement.

### **2.3.7 Funding Account**

When opening an account, no advisor or employee of Coastal shall accept cash from the client or a check made out to Coastal for investment or other purposes. Checks should be made payable to the appropriate broker dealer or issuer. For example, for brokerage accounts held by Coastal's affiliate broker dealer, checks should be

made payable to "Wells Fargo Clearing Services, LLC" and delivered directly to the Home Office or approved OSJ. Coastal does not accept third party checks or traveler's checks.

## **2.3.8 Detecting and Preventing Money Laundering**

While investment advisers are not subject to the broad array of anti-money laundering regulations that apply to financial institutions such as banks and broker-dealers, they are subject to the following anti-money laundering laws:

- OFAC Regulations
- Currency and Monetary Instruments Reporting

### **2.3.8.1 Anti-Money Laundering Compliance Officer**

The Anti-Money Laundering Compliance Officer is Aileen DeFroda (CRD#5410978).

### **2.3.8.2 OFAC Prohibited Transactions**

OFAC refers to the "Office of Foreign Assets Control," which is an office of the U.S. Department of Treasury that administers and enforces economic and trade sanctions that further U.S. foreign policy and national security goals against:

- Targeted foreign countries;
- Terrorists;
- International drug traffickers; and
- Persons facilitating the proliferation of weapons of mass destruction.

Neither Coastal nor any of its employees will engage in any transaction or provide services that assist a client with any transaction that involves money laundering. No employee shall participate in or facilitate a transaction with individuals, entities and jurisdictions identified by OFAC, including those individuals on OFAC's Specially Designated Nationals and Blocked Persons List ("SDN List"). This list is available at <http://www.treas.gov/offices/enforcement/ofac/sdn>.

When necessary to comply with the OFAC requirements, Coastal shall block or reject certain transactions.

#### **2.3.8.2.1 Blocked Transactions**

Coastal shall block ( *i.e.*, freeze) transactions involving assets and accounts of countries, entities and individuals identified on the SDN List when such property:

- is located in the U.S.,
- is held by U.S. individuals or entities, or
- comes into the possession or control of U.S. individuals or entities.

A blocked transaction may result from the receipt of assets and property or the establishment of an account for a customer identified on the SDN List.

When Coastal blocks a transaction, it will take steps to ensure that the assets or account are (i) segregated and (ii) arrange to accrue interest at a commercially reasonable rate until the customer is removed from the SDN



List, the sanctions program is rescinded, or the customer obtains an OFAC license authorizing release of the property.

### **2.3.8.2.2 Rejected Transactions**

When a transaction is prohibited on the SDN List, but no blockable assets or property have been received in relation to the transaction, Coastal shall reject such transaction ( *i.e.*, it will not take steps to process the transaction).

### **2.3.8.2.3 Reporting**

Coastal will report blocked and rejected transactions to OFAC in the following two types of reports:

- Immediate Reports: Within 10 days of valid OFAC occurrence, a report will be filed with OFAC showing the blocked or rejected transaction.
- Annual Reports: By September 30 of each year, a report will be filed with OFAC showing the total amount of blocked transactions, including interest as of June 30.

### **2.3.8.3 Responsible Service Providers**

Coastal conducts its activities, including in particular, activities involving interactions with Clients, through various service providers (collectively, the "Responsible Service Providers"). Accordingly, it is those Responsible Service Providers, the services of which involve the establishment and maintenance of accounts of Clients or the effectuation of Client transactions, that are responsible for the AML Program. A list of Coastal's current Responsible Service Providers is set forth at the end of these Procedures. This list shall be updated whenever a Responsible Service Provider is added or terminated.

Coastal requires that, to the extent reasonable and practical, but in any event as required by federal law or contractual obligation, Responsible Service Providers have in place policies and procedures designed to fulfill Coastal's obligations to guard against money laundering, as required by the USA PATRIOT Act.

The anti-money laundering program adopted and implemented by each Responsible Service Provider must include the following elements, in each case satisfactory to the AML Compliance Officer:

- A. Checking the names of all clients and any third parties involved in wire transfers against the List of Specially Designated Nationals and Blocked Persons maintained by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") (which may be accessed on the web at <http://www.treas.gov/ofac>), and refusing to accept investments from any such listed parties.
- B. Monitoring activity in Client accounts for suspicious financial activities and bringing such information to the attention of the AML Compliance Officer immediately, including the following:
  - o transactions in cash or money orders;
  - o transactions with foreign shell banks, banks with post office box addresses or banks located in countries without AML laws;
  - o transactions with a Client in which monies are received from a non-subscribing third party;
  - o excessive frequency of contributions and withdrawals by a Client;
  - o transactions by or for the benefit of senior foreign political figures, their immediate family members and/or close associates;
  - o distributions to a Client through any account other than the original wiring account of such Client; and
  - o reluctance to provide additional information, including information regarding the identity of beneficial owners, or to answer questions when requested.

- C. For all new Client accounts, customer identification and other "know your customer" procedures that are sufficient to:
- o verify, to the extent reasonable, practical and as required by the USA PATRIOT Act, the identity of any person seeking to open an account;
  - o maintain records of the information used to verify the person's identity; and
  - o ensure that the potential shareholder does not appear on any federal government list of known or suspected terrorists or terrorist organizations (together "KYC procedures").
- Coastal also requires that the Responsible Service Providers have procedures in place that are designed to identify suspicious or "red flag" activities.
- D. The Responsible Service Provider must employ procedures, to the extent reasonable, practical and as required by the USA PATRIOT Act, to establish the identity of an individual or entity opening an account. These procedures must include the review of the documentation used to establish the identity of the prospective account holder.
- E. Prohibiting cash investments and limiting third party checks; specifically, the Responsible Service Provider may not accept cash (including bank checks, travelers' checks, cashier's checks, and money orders), or credit card checks for the purpose of paying for advisory services or making investments.
- F. Detecting unusual or suspicious activity involving Client accounts maintained with the Responsible Service Provider. Specifically, these procedures must address the appropriate action with respect to any discrepancies identified through the Responsible Service Provider's KYC procedures as well as any suspicious wire transfers, share purchases or redemptions, or other activity with respect to the account.

Any suspicious questions from or disclosure by, or activities of, existing or prospective Clients, as well as any questions regarding the Procedures should be brought promptly to the attention of the AML Compliance Officer. The AML Compliance Officer will evaluate such activities together with other factors, such as the length of time the Adviser has known the Client, and any other relationships Coastal or its senior management or employees have with such Client. It is the ultimate responsibility of the AML Compliance Officer to determine whether or not any such reported activity warrants further action.

#### **2.3.8.3.1 Responsible Service Providers**

Coastal Equities, Inc., Coastal Investment Advisors, Inc.'s broker-dealer affiliate, and its clearing firm, Wells Fargo Clearing Services, LLC, are Responsible Service Providers.

#### **2.3.8.4 Sanctions**

If an employee fails to comply with Coastal's Anti-Money Laundering Program, he or she may be subject to disciplinary action that includes suspension or termination. In addition, Coastal will report serious violations to the appropriate law enforcement authorities, which could potentially result in civil and criminal penalties, imprisonment, fines and forfeiture of property.

#### **2.3.8.5 Amendments**

These Anti-Money Laundering Procedures shall be updated from time to time to reflect new money laundering laws and regulations, new types of clients, and new types of investment products made available through Coastal.

## **2.4 Form ADV Disclosure**

Coastal shall make sure that material information about minimum dollar amount requirements (if any) and other client intake procedures are disclosed in its Brochure (Part 2A).

## **2.5 Books and Records**

[Investment Advisers Act of 1940 Rule 204-2(a)(14) and 204-3]

Coastal shall maintain a copy of the Brochure and Brochure Supplement and each amendment or revision thereof, given or sent to any client or prospective client of Coastal in accordance with the provisions of Rule 204-3 under the Investment Advisers Act of 1940 (Rule 204-2(a)(14)).

# 3 EXISTING CLIENTS AND PRIVACY PROCEDURES

## Introduction

[Gramm-Leach-Bliley Act; SEC Regulation S-P; Investment Advisers Act of 1940 Rule 204-3]

An obvious responsibility of an investment adviser is to manage the assets that the client entrusts with the investment adviser. A less obvious responsibility, but equally as important, is to provide quality administrative or "back office" services to clients. Clients desire information about the performance of their accounts. Thus, an investment adviser should transmit periodic statements to the client covering account activity over a specified period and value of the account at a specified time.

Rule 204-3 under the Investment Advisers Act of 1940 imposes disclosure delivery obligations on investment advisers. Each year, an investment adviser must deliver to each existing client, or offer to deliver, Part II of its Form ADV.

Client information in the possession of an investment adviser is governed by federal law and, in some cases state law. The Gramm-Leach-Bliley Act (GLB) and Regulation S-P require financial institutions, including investment advisers, to provide a notice to each customer that describes the investment adviser's policies and practices regarding the disclosure to third parties of nonpublic personal information. In general, the privacy notice must describe an investment adviser's policies and practices with respect to disclosing nonpublic personal information about a client to both affiliated and nonaffiliated third parties and provide a client a reasonable opportunity to opt out of the sharing of nonpublic personal information about the client with nonaffiliated third parties. As part of its privacy notice, the privacy rule requires an investment adviser to include specific items of information, such as the categories of nonpublic personal information that the investment adviser collects and the categories of third parties to which the investment adviser may disclose the information.

## 3.1 Compliance Reference Chart

[Gramm-Leach-Bliley Act; SEC Regulation S-P; Investment Advisers Act of 1940 Rule 204-3]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li><li>• Designated Supervisor</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Operations</li><li>• Legal</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Annual delivery or offer to deliver Part 2A of Form ADV to existing clients</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Gramm-Leach-Bliley Act</li><li>• Regulation S-P</li><li>• Rule 204-3 under the Investment Advisers Act of 1940</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• Form ADV delivery</li><li>• Privacy Notice delivery</li></ul>

<b>Audit</b>	<ul style="list-style-type: none"><li>• Coastal audits its Existing Clients &amp; Privacy Procedures annually.</li></ul>
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## 3.2 Policy

It is Coastal's policy to periodically transmit, or cause to be transmitted, a report to each client that shows the client's investment portfolio position and account activity and that all such communications and other client communications shall be truthful and not misleading. Furthermore, it is Coastal's policy to monitor and review all client complaints and to promptly address and, if possible, resolve client complaints in a reasonable, fair and timely manner, and to ensure the privacy of client records.

## 3.3 Procedures

### 3.3.1 Account Statements

The broker-dealer or other financial institution that maintains clients' securities accounts ("Broker-Dealer") transmits account statements to clients. The Chief Compliance Officer will arrange for Broker-Dealer to transmit to Coastal duplicates of all account statements sent to clients. A direct feed to client account information or compliance online access shall suffice in lieu of paper statements.

### 3.3.2 ERISA Reporting

ERISA imposes a number of reporting obligations on investment managers of plan assets. In addition to its own reporting obligations, Coastal may have to provide to the employee plan's trustee or administrator certain financial information necessary for the filing of the plan's annual reports. Coastal's obligations are usually satisfied upon delivery of the advisory contract and firm's Disclosure Brochure. Coastal will review any contracts with ERISA plan clients and their administrators for provisions that require it to fulfill certain ERISA reporting obligations delegated by the plan's trustee or administrator which are not so satisfied, and will take steps to ensure compliance with such obligations.

### 3.3.3 Address Changes

**Accounts custodied at WFCS:** Address changes may be processed through a service request in SmartStation. Each such service request is reviewed and approved by a supervisor prior to execution of the service request. Verbal instruction from the client requires notation that the customer's identity has been verified by two personal identifiers on record in the system (e.g. last four digits of SSN, zip code, birth date, etc.) Written instructions signed by the customer requires verification by contacting the customer by phone at the phone number on record. Upon processing the change of address in SmartStation, a notice will be generated by WFCS and sent to the customer's old address and updated address confirming that an address change has been made to the account. Requests to update an address to a PO box must be in writing and signed by the account holder(s). A copy of the service request, and written request from the client if any, shall be kept in the branch Address Change File.

**Accounts custodied outside WFCS:** Client address change requests must be submitted in writing on the firm's Change of Address Request Form, and reviewed and approved by a supervisor. The Firm will notify the

associated broker-dealer of the change and will rely upon the account's broker-dealer to mail confirmation of the address change to the current and new addresses on file within thirty days of the address change request.

### **3.3.4 Client Data**

Employees of Coastal are required to exercise reasonable care in recording and maintaining information about client accounts, and to be reasonably sure that the information is accurate.

Coastal's Cybersecurity and Personal Identifiable Information Procedures are memorialized in the firm's Cybersecurity and Personal Information Protection Policy.

### **3.3.5 Client Communications**

Each communication to a client or the general public shall be consistent with the following policies and guidelines:

- Any communication may not be untruthful or misleading or omit a material fact necessary for making the communication not misleading.
- A public communication may not include any promises of specific results or forecasts of future returns.
- When discussing investments, the risks of such investments and the possibility that their value may increase or decrease must be disclosed.
- An employee may make comparisons of Coastal with competitors regarding fees, performance and other matters only if he or she has factual information that supports such comparisons.
- Any material that contains the legend "Internal Use Only" or similar legends may not be provided to clients or other persons who are not employees of Coastal or provide services to Coastal.
- Employees shall use only for business purposes stationery and business cards bearing Coastal's logo, unless the Chief Compliance Officer approves in writing the use of non-standard stationery or business cards.
- Neither tax nor legal advice will be provided to clients in communications.

#### **3.3.5.1 Incoming Correspondence**

Any incoming correspondence received by regular mail, including correspondence marked "Personal" or "Confidential," shall be maintained in an incoming correspondence file at the branch and made available for inspection by branch inspection personnel upon request. All correspondence shall be reviewed by the Designated Supervisor of the branch on a weekly basis if the supervisor is located on-site. For branches with remote supervisors, correspondence may be scanned and emailed to the supervisor for review on at least a monthly basis or more frequently in the discretion of the supervisor.

Any correspondence, including email, relating to complaints or legal actions related to a client must be immediately forwarded to the Designated Supervisor and Compliance.

#### **3.3.5.2 Outgoing Correspondence**

Prior to sending any outgoing firm-related or investment-related correspondence to more than one person (by regular mail, e-mail or otherwise), an employee must submit such correspondence to his or her Designated Supervisor for pre-approval. Any such correspondence must be sent on firm letterhead or other firm-approved letterhead. No outgoing correspondence may be untruthful or misleading or omit a material fact necessary for making the communication not misleading.

Copies of outgoing correspondence must be maintained in an outgoing correspondence file at the branch and made available for inspection by branch inspection personnel upon request. All correspondence not pre-approved shall be reviewed by the Designated Supervisor of the branch on a weekly basis if the supervisor is located on-site. For branches with remote supervisors, correspondence may be scanned and emailed to the supervisor for review on at least a monthly basis or more frequently in the discretion of the supervisor.

### **3.3.5.3 Oral Communications**

Oral communications with clients and prospective clients must be true, accurate, complete and not misleading. Oral communications must comply with the same high standards of accuracy, completeness and credibility as are required in written communications. Employees should limit their oral communications to factual information concerning investments or other topics.

### **3.3.5.4 Electronic Delivery of Communications**

Coastal may deliver electronically required reports and other information to clients, provided the following conditions are met:

1. The client has given informed consent to receiving the information electronically;
2. The client can effectively access the electronically delivered information; and
3. Coastal receives evidence of the successful electronic delivery of the information (e.g., an e-mail return receipt or other confirmation that the client accessed the information).

Evidence of consent may be satisfied by:

- Letter;
- Written Agreement;
- E-mail; or
- Telephone, provided a record of the telephonic consent is kept and such record contains as much detail as a written consent, including the scope of the consent and the type of electronic media that will be used.

### **3.3.5.5 Senior Client Communications Best Practices**

With respect to senior clients, Coastal recommends the following best practices:

- Increase the frequency of contact with senior clients to remain informed about changes in senior clients' financial needs, employment status, health, and other life events;
- Encourage investment adviser representatives to talk to senior clients about having an emergency or alternate contact on file with Coastal, such as a trusted family member or other trusted individual;
- Educate senior clients about the benefits of having a power of attorney and when appropriate, encouraging senior clients who are in good health to share details of their financial affairs with trusted family members, estate lawyers and/or other professionals to help ensure that if the senior client's health deteriorates, their financial affairs will be properly handled;
- Document conversations with senior clients in case they have problems with lack of recall or to help resolve any misunderstanding;
- Send follow-up letters, e-mails or other communications to senior clients after conversations to document and reiterate what was discussed;
- Avoid financial jargon, and instead use plain language;
- Use larger font versions of marketing materials; and

- Consider providing or making available brochures that explain to senior clients how to identify, locate, organize and store important documents so that they are easily accessible in case of an emergency.

### 3.3.5.6 Consolidated Reports

Some advisors may desire to provide reports to their clients identifying all positions held by the client across multiple accounts, including subscription-way/direct business positions not shown on the client's brokerage statements, i.e. a consolidated statement. The Firm's policy is to subject such reports to risk-based review. The Firm has implemented a policy in 2015 to treat manually produced reports (e.g. word processor or excel) as retail communication, and therefore the firm requires pre-approval of such reports prior to use with any client. The Firm is therefore memorializing the above policies herein below.

Advisors who produce such documentation may only do so as a supplement to one-on-one customer reviews, preferably in person, and advisor's must follow the following procedures:

1) **Manual Reports** (Excel Spreadsheet, etc.): Each proposed summary or report must be submitted to the advisor's designated supervisor for pre-approval, and may not transmit, publish, or use such material in any client presentation without first obtaining approval. The summary or report must be submitted to the advisor's supervisor by e-mail along with copies of all statements upon which the numerical data is based upon so that the supervisor may review the data for accuracy. The supervisor will evidence approval of the summary or report by stating 'Approved' in a return e-mail. Approval emails should copy compliance at [compliance@coastal-one.com](mailto:compliance@coastal-one.com).

Each such report or summary must have a disclaimer substantially similar to the following:

*This report may contain manually entered assets. The accuracy and authenticity of manually entered assets is reliant solely on the author of the information and not controlled by or attested to by Coastal nor its affiliates or business partners. Any information represented as manually entered assets should be regarded as informational only and not interpreted as official or legal financial positions. The combined total represents the combination of various sources and types of accounts. This combined total is subject to any error of any of the types of data sources that may be contributing to it, including manual entry errors and data reliability or completeness errors. The cost basis information is subject to the validity of the supplier of cost basis information and should not be used for tax purposes. Consolidated reporting may be provided via third party data aggregator and portfolio performance engine, under contractual agreement with the broker dealer. This consolidated report is based on custodian(s) and/or Financial Advisor provided account detail and is reflected here for informational purposes only, as a customer courtesy. Account information contained within this report has been provided by the custodian directly, your Financial Advisor, in the alternative, via third party data provider. The information herein is from sources deemed to be reliable, but its accuracy cannot be guaranteed. This consolidated report may include assets that the firm does not hold on your behalf ("held away assets") which are not included on the firm's books and records. Assets "held away" are those accounts which have been solicited and/or are held outside of the broker dealer. In most instances, "held away" assets may be non-verifiable by the Broker Dealer. Assets "held away" from the broker dealer may not be covered by SIPC. This report content may supplement, but is not intended to replace, the official customer account statement (hereafter referred to as "source document") provided by the custodian. You are encouraged to review and maintain the official source document(s) provided by the account custodian(s). These source documents may contain notices, disclosures and other important information and may also serve as a reference should questions arise regarding the accuracy of the information in this consolidated report. Always refer to these source documents for lending, legal or tax purposes. Calculations are based on and valuations are stated in US Dollars. If you have any questions as to the values of the assets, please contact the sponsor company directly.*

Coastal Investment Advisors, Inc.

1201 N. Orange St., Suite 729

Wilmington, DE 19801



The Firm has further implemented the following policy concerning financial planning software packages and other reporting software which aggregates client accounts, both internal and external, through feeds and which also permit manual entry of investments or securities by the client or the registered representative:

2) **Electronic Reports** (Envision, eMoney, Black Diamond, etc.): Advisors will annually attest whether they utilize reporting software and identify the vendor(s) utilized for such services. Compliance will, on a monthly basis, request a list of all consolidated reports produced in the past thirty (30) days from a randomly selected branch. Compliance will request that the branch produce a report for a sampled number of reports from the list provided by the branch. Compliance will review the reports for any suspicious external accounts or external investments, and if found, will investigate such accounts or investments in order to determine its veracity and the reported value of the investment. All uncorroborated investments will be reported to management for further action.

Compliance will maintain a physical copy of the reports sampled and will evidence review by initial of the reviewer and date.

### 3.3.6 Client Complaints

A client communication shall be deemed to be a complaint if it is a request by a client for corrective action or any written statement of a client or person representing a client alleging a grievance related to the management of the client's account that involves Coastal or any of its employees. Examples of common complaints are failure to place a securities order requested by the client, allegation of an improper recommendation, or a failure to respond to a previous client communication.

It is the policy of Coastal to have client complaint procedures designed to allow:

1. Clients to inform Coastal about problems and the level of service Coastal is providing them;
2. Clients to receive a prompt and fair response to their complaints;
3. Coastal to learn from client complaints so that it may improve its advisory services; and
4. Coastal to take all possible actions to resolve each complaint that is satisfactory to the client and Coastal.

Coastal shall establish and maintain a central complaints log ("Complaint Log"). The Chief Compliance Officer shall prepare a quarterly complaints report ("Quarterly Complaints Report") that is distributed to senior management of Coastal that:

1. Lists outstanding complaints;
2. Contains each Client Complaint Form prepared during the most recent quarter;
3. Reports on the status of outstanding complaints;
4. Highlights those complaints that have been identified as having potentially serious financial or regulatory consequences; and
5. Identifies Coastal personnel participating in the complaint resolution.

Client complaints shall be addressed and resolved pursuant to the following procedures:

1. Each employee shall immediately report a complaint to the Chief Compliance Officer;
2. No employee may independently respond to a client complaint or settle a complaint;
3. The branch Supervisor or Compliance Officer, with assistance from the employee reporting the complaint, shall make a written record of the complaint on the Client Complaint Form, which shall include, at a minimum, the date the complaint was received, from whom the complaint was received, and the recommended response or course of action to address the complaint. The Supervisor or Compliance Officer shall attach the client's correspondence (if a written complaint) or a memorandum (if a verbal complaint) related to the complaint to the Client Complaint Form. Both documents and other related material shall be maintained in the Home Office complaints file;
4. Once in receipt of the complaint, Compliance shall send a written communication to the client indicating that Coastal is investigating his or her complaint and will respond to the client at the conclusion of the investigation;

5. Compliance shall make a full inquiry into the facts underlying the complaint. Factual conclusions shall be set forth in the Client Complaint Form or by memorandum;
6. If it is a legitimate complaint because a representative of Coastal acted erroneously or in an inappropriate manner, the matter shall be referred to the relevant Coastal management personnel or officers who shall take prompt and appropriate remedial action;
7. If the complaint becomes a legal issue, the matter will be referred to Coastal's chief legal counsel or outside counsel for appropriate action;
8. Coastal shall make and keep a record of each complaint in the Complaint Log and maintain the Complaint Log, Quarterly Complaints Reports and all other material documents related to client complaints in the books and records of Coastal in accordance with the established document retention procedures.

### **3.3.7 Errors**

Coastal will correct any errors it has made in client accounts as soon as reasonably possible and will inform the client of the error and the correction.

### **3.3.8 Relationship Summary (Form CRS) Annual Delivery**

In 2020, SEC-registered investment advisers will be required to deliver their relationship summaries (Form CRS) to all existing clients who are retail investors on an initial one-time basis within 30 days after the date Coastal Investment Advisors is first required to file its relationship summary with the SEC. The SEC designed the Relationship Summary to provide advisory clients with succinct information about the relationships and services the adviser offers, fees and costs that clients will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things.

To provide adequate notice and opportunity to comply with the relationship summary filing requirements, advisers that are registered, or investment advisers who have an application for registration pending, with the SEC prior to June 30, 2020 will have a period of time beginning on May 1, 2020 until June 30, 2020 to file their initial relationship summaries with the SEC.

Coastal Investment Advisors will deliver to each existing retail client its current Relationship Summary that meets the requirements set forth in the *REGISTRATION AND FILINGS* chapter of this Compliance Manual annually and more frequently if certain events take place.

See *Relationship Summary Delivery and Posting* in the *REGISTRATION AND FILINGS* chapter of this Compliance Manual for annual and other periodic delivery requirements.

### **3.3.9 Annual Form ADV Delivery**

[Investment Advisers Act of 1940 Rule 204-3]

Pursuant to Rule 204-3 under the Investment Advisers Act of 1940, which imposes disclosure delivery obligations on investment advisers, Coastal each year, will deliver, or offer to deliver, to each existing client, its Brochure (Part 2A) and Brochure Supplements (Part 2B).

#### **3.3.9.1 Annual Delivery**

All Clients shall receive Brochures each year.

Each existing client within 120 days of the end of Coastal's fiscal year shall have received: (i) an updated Brochure that either includes a summary of material changes or is accompanied by a summary of material changes, or (ii) a summary of material changes that includes an offer to provide a copy of the updated Brochure and information on how a client may obtain the Brochure.

In such case, Coastal will provide the updated Brochure Supplement or sticker to the clients to whom the Investment Person:

- formulates investment advice for the client and has direct client contact; or
- makes discretionary investment decisions for the client's assets, even if such person does not have direct client contact.

The Chief Compliance Officer will not deliver a Brochure or any Brochure Supplement to the following types of existing clients:

- registered investment companies and business development companies;
- clients who receive only impersonal investment advice; and
- "Qualified Clients," as defined herein.

The following persons are "Qualified Clients" for purposes of the Brochure and Brochure Supplement delivery requirements:

- any executive officers, directors, trustees, general partners, or persons serving in a similar capacity, of Coastal; and
- any employees of Coastal (other than employees performing solely clerical, secretarial or administrative functions) who, in connection with their regular functions or duties, participate in the investment activities of Coastal and have been performing such functions or duties for at least 12 months.

If investment advice is provided by a team at Coastal, an existing client shall receive:

- a Brochure Supplement for each team member of the team which consists of from two to five investment advisory personnel; and
- a Brochure Supplement of each five investment personnel who have the most significant responsibility for the day-to-day advice provided to the client if the team has more than five investment advisory personnel.

### **3.3.9.2 Interim Delivery**

In the event that a Brochure or Brochure Supplement becomes materially inaccurate, Coastal shall add or otherwise correct the disclosure and deliver the amended disclosure to each client. Coastal may deliver this information either in:

- a separate statement describing this updated information; or
- a reprinted Brochure and/or Brochure Supplement.

### **3.3.9.3 Impersonal Advisory Services**

Coastal is not required to provide its Brochure or Brochure Supplements to clients who receive impersonal advisory services such as newsletters, if the contract for such services requires a payment of \$200 or less.

If Coastal elects not to deliver, or offer to deliver, its Brochure or Brochure Supplements to certain clients based on the impersonal advisory services offer/delivery exemption, it will make sure that:

- its services are not directed to the needs of such client; or

- the services provided to such client are limited to statistical information expressing no opinion as to the merits of any particular security.

### **3.3.9.4 Sub-Adviser Brochures**

From time to time, Coastal may employ sub-advisers on behalf of some or all of its clients. Under those circumstances, Coastal does not have to arrange for the sub-advisers to deliver their firm brochures to clients if the following conditions are met with respect to such clients:

1. The client must have appointed Coastal to have discretionary authority with respect to selecting sub-advisers to manage the client's account;
2. The client made an "informed choice" to delegate Coastal to receive the sub-adviser's firm brochure in lieu of the client receiving the document;
3. Coastal must identify to the client the identity of each sub-adviser;
4. Coastal must keep and maintain the sub-adviser's brochure in accordance with the books and records rule under the Advisers Act;
5. Coastal must provide a copy of the sub-adviser's brochure to the client upon the request of the client;
6. Coastal must review the sub-adviser's brochure, including sections that address conflicts of interest; and
7. The client retains the option to change his or her mind to receive the firm brochure of the sub-adviser free of charge.

See *Goldman Sachs & Co. (pub. avail. June 20, 2013)*.

## **3.3.10 Privacy Procedures**

### **3.3.10.1 Purpose of Procedures**

These privacy procedures are designed to:

- Ensure the security and confidentiality of client information;
- Protect against any anticipated threats or hazards to the security or integrity of client records and other client information; and
- Protect against unauthorized access to, or use of, client information that could result in substantial harm or inconvenience to any client.

### **3.3.10.2 Privacy Procedures Definitions**

*"Affiliate"* of Coastal means any company that controls, is controlled by, or is under common control with Coastal.

*"Consumer"* means an individual who obtains or has obtained a financial product or service from Coastal that is to be used primarily for personal, family, or household purposes. For example, an individual is a consumer of Coastal if he or she provides nonpublic personal information to Coastal in connection with obtaining or seeking to obtain investment advisory services, whether or not Coastal provides advisory services to the individual or establish a "continuing relationship" with the individual.

*"Continuing relationship"* a consumer has a continuing relationship with Coastal if the consumer has entered into an investment advisory contract with Coastal (whether written or oral).

*"Customer"* means a consumer who has a "customer relationship" with Coastal.

"*Customer relationship*" means a "continuing relationship" between a consumer and Coastal under which Coastal provides one or more financial products or services to the consumer that are to be used primarily for personal, family, or household purposes.

"*Nonaffiliated third party*" means any person except:

- Coastal's affiliate; or
- A person employed jointly by Coastal and any company that is not Coastal's affiliate (but *nonaffiliated third party* includes the other company that jointly employs the person).

"*Nonpublic personal information*" does not include:

- Publicly available information, except when the publicly available information is disclosed in a manner that indicates the individual is or has been Coastal's consumer; or
- Any list, description, or other grouping of consumers (and publicly available information pertaining to them) that is derived without using any personally identifiable financial information that is not publicly available information.

"*Personal information*" means personally identifiable financial information and any other information that is a combination of the client's first name (or initial) and last name with any of the following types of data:

- Social Security Number;
- Driver's license number or other state-issued ID card number; or
- Financial account number, credit or debit card number, access code, personal identification number or password that would permit the client to access his or her personal information.

Coastal shall not treat information that can be lawfully obtained from publicly available information or from federal, state or local data bases as "personal information."

"*Personally identifiable financial information*" means any information:

- A consumer provides to Coastal to obtain a financial product or service from Coastal;
- About a consumer resulting from any transaction involving a financial product or service between Coastal and a consumer; or
- Coastal otherwise obtains about a consumer in connection with providing a financial product or service to that consumer.

"*Publicly available information*" means any information that Coastal reasonably believes is lawfully made available to the general public from:

- Federal, State, or local government records;
- Widely distributed media; or
- Disclosures to the general public that are required to be made by federal, State, or local law.

### **3.3.10.3 Privacy Notice**

[SEC Regulation S-P Section 248.13, Section 248.14 and Section 248.15]

The Chief Compliance Officer on the behalf of Coastal will maintain an updated privacy notice ("Privacy Notice"). The Privacy Notice will describe:

- The categories of nonpublic personal information that Coastal collects;
- The categories of nonpublic personal information that Coastal discloses;
- The categories of affiliates and nonaffiliated third parties to whom Coastal discloses nonpublic personal information, other than those parties to whom Coastal discloses information under exceptions in Sec. 248.14 (exceptions to notice and opt out requirements for processing and servicing transactions) and Sec. 248.15 of Regulation S-P (certain other exceptions in Regulation S-P);

- The categories of nonpublic personal information about Coastal's former clients that it discloses and the categories of affiliates and nonaffiliated third parties to whom Coastal discloses nonpublic personal information about its former clients, other than those parties to whom Coastal discloses information under exceptions in Sec. 248.14 (exceptions to notice and opt out requirements for processing and servicing transactions) and Sec. 248.15 Regulation S-P (certain other exceptions in Regulation S-P);
- Whether Coastal discloses information under exceptions in Sec. 248.14 (exceptions to notice and opt out requirements for processing and servicing transactions) and Sec. 248.15 Regulation S-P (certain other exceptions in Regulation S-P);
- If Coastal disclose nonpublic personal information to a nonaffiliated third party under Sec. 248.13 (exception to opt out requirements for service providers and joint marketing), the notice will contain a separate statement of the categories of information it discloses and the categories of third parties with whom it has contracted;
- An explanation of the consumer's right under Regulation S-P to opt out of the disclosure of nonpublic personal information to nonaffiliated third parties, including the method(s) by which the consumer may exercise that right at that time;
- Any disclosures that Coastal makes under the Fair Credit Reporting Act (that is, notices regarding the ability to opt out of disclosures of information among affiliates); and
- Coastal's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information.

The SEC has adopted a model privacy form that advisers may rely upon to comply with the disclosure requirements of Regulation S-P. The model privacy form is a two-page disclosure form. It is designed to be succinct and comprehensible and allow consumers to easily compare the privacy practices of different financial institutions. Use of the model privacy form is voluntary. An adviser that chooses to use the model privacy form consistent with the instructions to the form will satisfy the disclosure requirements for privacy notices under Regulation S-P ( *i.e.*, will obtain a "safe harbor").

### 3.3.10.4 Privacy Notice Delivery

As part of the Fixing America's Surface Transportation Act (FAST Act), an amendment to the Gramm-Leach-Bliley Act (GLBA) was enacted that eliminated the annual privacy policy notice requirement for certain financial institutions including investment advisers. These changes are designed to ease the existing regulatory burden and allow many financial institutions to avoid providing customers with annual privacy policy notices.

A copy of the Privacy Notice shall be provided to new and existing clients as follows.

#### **New Clients**

A copy of the Privacy Notice shall be provided by Coastal to an individual who becomes a "customer" of the firm not later than when the firm establishes a customer relationship, before the firm discloses any nonpublic personal information about the consumer to any nonaffiliated third party.

#### **Existing Clients**

A copy of the Privacy Notice shall be provided by the firm to each existing client at least once in any period of 12 consecutive months during which that client relationship exists unless the following conditions are met:

- The firm only shares non-public client information within the GLBA-listed exceptions that do not trigger the opt-out right. If the information sharing practice falls under one of these exceptions, the Firm need not provide clients the right to "opt-out" of such information sharing. Key GLBA-listed exceptions are:
  - with non-affiliated third parties for the purposes of performing services for or functions on behalf of the Firm;
  - as necessary to effect, administer or enforce a transaction requested or authorized by the client;

- to protect the confidentiality or security of the Firm's records against fraud and for institutional risk control purposes;
- to provide information to insurance rate advisory organizations, ratings agencies, the Firm's attorneys, accountants and auditors or others determining compliance with industry standards;
- to consumer reporting agencies; and
- to comply with applicable federal, state or local laws or rules.
- The firm must not have changed its policies or procedures with respect to the disclosure of non-public client information since the last privacy notice was provided to its clients.

Therefore, Coastal would only be required to provide an Annual Notice if it changes its privacy policies or discloses non-public private client information to non-affiliated third parties in a manner that triggers an opt-out right.

### **Delivery Method**

Coastal will provide privacy notices and opt out notices so that each client can reasonably be expected to receive actual notice in writing or, if the client agrees, electronically. The Firm may reasonably expect that a client will receive actual notice if it:

- Hand-delivers a printed copy of the notice to the client;
- Mails a printed copy of the notice to the last known address of the client; or
- For the client who conducts transactions electronically, posts the notice on the electronic site and requires the client to acknowledge receipt of the notice as a necessary step to obtaining a particular financial product or service.

### **3.3.10.5 Clients Who Opt Out of Information Sharing**

Coastal may share client nonpublic personal information about a client with third parties. If so, the firm will provide each client with a notice that allows clients to opt out of such information sharing ("Opt Out Notice"). The Opt Out Notice will be clear, conspicuous and accurately:

- Explain that Coastal discloses or reserves the right to disclose nonpublic personal information about clients to a nonaffiliated third party;
- Explain that the client has the right to opt out of that disclosure; and
- Provide the client a reasonable means by which he or she may exercise the opt out right.

The Chief Compliance Officer shall maintain a list of clients who have opted to not permit their nonpublic personal information to be shared except to the extent permitted by law.

### **3.3.10.6 Security Measures**

Coastal has securities measures implemented and maintained by the Chief Compliance Officer and his or her designees to protect the confidentiality of client information. Such procedures are located in the stand-alone manual Cybersecurity and Personal Information Protection Policy. This manual is provided to all access persons by Coastal.

### **3.3.10.7 Massachusetts Data Security Law**

The Commonwealth of Massachusetts has adopted a data security law that is designed to protect its residents from identity theft.

### 3.3.10.7.1 Personal Information

For purposes of the section, "Personal Information" means:

- a Massachusetts resident's first name and last name or first initial and last name in combination with any one or more of the following data elements that relate to such resident:
  - Social Security number;
  - driver's license number or state-issued identification card number; or
  - financial account number, or credit or debit card number, with or without any required security code, access code, personal identification number or password, that would permit access to a resident's financial account.
- "Personal Information" shall not include information that is lawfully obtained from publicly available information, or from federal, state or local government records lawfully made available to the general public.

### 3.3.10.7.2 Comprehensive Information Security Program (CISP)

Coastal maintains a Comprehensive Information Security Program ("CISP") in accordance with the procedures set forth in this section. Coastal's *Cybersecurity and Personal Information Protection Policy* serves as its CISP.

### 3.3.10.7.3 CISP Monitoring

The CISP Administrator is Coastal's IST as defined in its CPIIP manual and shall monitor the data of each Massachusetts client along with all other clients to ensure that the CISP is operating in a manner reasonably calculated to prevent unauthorized access to or unauthorized use of Personal Information, and, when necessary, shall arrange for the upgrading of information safeguards as necessary to limit risks.

### 3.3.11 Former Clients

Coastal shall follow these procedures when a person decides to no longer be a client of Coastal:

- Document the reason(s) why the person was terminated as a client;
- Inform all relevant service providers, including the custodian, that the person is no longer a client;
- Inform the Chief Compliance Officer if the former client terminated his or her relationship with Coastal because of a complaint.

### 3.3.12 Affiliate Marketing

[SEC Regulation S-AM]

The SEC has adopted Regulation S-AM, which places limitations on an investment adviser's use of information received from an affiliate to solicit an investor (called a "consumer" in the Regulation) for marketing purposes, unless the investor has been given notice and a reasonable opportunity and a reasonable and simple method to opt out of such solicitations. The compliance date of the rule is June 1, 2010.

### 3.3.12.1 Eligibility Information



Coastal will not use eligibility information about a consumer, that it receives from an affiliate, to make a marketing solicitation to the consumer, unless:

- It is clearly and conspicuously disclosed to the consumer in writing or, if the consumer agrees, electronically, in a concise notice that Coastal may use eligibility information about that consumer received from an affiliate to make marketing solicitations to the consumer;
- The consumer has been provided a reasonable opportunity and a reasonable and simple method to "opt out;" and
- The consumer has not opted out.

For purposes of this procedure:

- "eligibility information" means: any communication of bearing on a consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living that is used or expected to be used or collected in whole or in part for the purpose of serving as a factor in establishing the consumer's eligibility for credit or insurance to be used primarily for personal, family or household purposes or employment purposes.
- "marketing solicitation" means: the marketing of a product or service initiated by Coastal to a particular consumer that is: (i) based on eligibility information communicated to Coastal by its affiliate; and (ii) intended to encourage the consumer to purchase or obtain such product or service.

### **3.3.12.2 Making a Marketing Solicitation**

Coastal shall be deemed to be "making a marketing solicitation" if the following three conditions are met:

- Coastal receives eligibility information from an affiliate;
- Coastal uses eligibility information to: (i) identify the consumer or type of consumer to receive a marketing solicitation; (ii) establish criteria used to select the consumer to receive a marketing solicitation; or (iii) decide which of Coastal's products or services to market to the consumer or tailor Coastal's marketing solicitation to that consumer; and
- The consumer is provided marketing solicitation.

### **3.3.12.3 Service Provider Exceptions**

The prohibitions and conditions of this section shall not apply to arrangements when Coastal receives or uses an affiliate's eligibility information if a service provider acting on Coastal's behalf receives or uses that information, as set forth below:

#### **Affiliate's Own Eligibility Information with No Direct Communication from Coastal**

(i) An affiliate uses its own eligibility information that it obtained in connection with a pre-existing business relationship it has or had with the consumer to market Coastal's products or services to the affiliate's consumer; or

(ii) An affiliate directs its service provider to use the affiliate's own eligibility information that it obtained in connection with a pre-existing business relationship it has or had with the consumer to market Coastal's products or services to the consumer, and Coastal does not communicate directly with the service provider regarding that use.

#### **Affiliate's Own Eligibility Information with Direct Communication from Coastal**

Coastal will not be deemed to be making a marketing solicitation prohibited by this section if a service provider uses eligibility information from a Firm's affiliate to market Coastal's products or services to a consumer provided the following four conditions are met:

- The affiliate controls access to and use of its eligibility information by the service provider (including the right to establish the specific terms and conditions under which the service provider may use such information to market Coastal's products or services);
- The affiliate establishes specific terms and conditions under which the service provider may access and use Coastal's affiliate's eligibility information to market Coastal's products and services (or those of affiliates generally) to Coastal's affiliate's consumers, such as the identity of the affiliated companies whose products or services may be marketed to the affiliate's consumers by the service provider, the types of products or services of affiliated companies that may be marketed, and the number of times the affiliate's consumers may receive marketing materials, and periodically evaluates the service provider's compliance with those terms and conditions;
- The affiliate requires the service provider to implement reasonable policies and procedures designed to ensure that the service provider uses the affiliate's eligibility information in accordance with the terms and conditions established by the affiliate relating to the marketing of Coastal's products or services; and
- Coastal's affiliate is identified on or with the marketing materials provided to the consumer.

The exception will only apply if the requirements of this section are set forth in a written agreement between Coastal's affiliate and the service provider.

### **3.3.12.4 Other Exceptions**

The provisions of this section do not apply to Coastal if Coastal uses eligibility information that it receives from an affiliate:

- To make a marketing solicitation to a consumer with whom Coastal has a pre-existing business relationship;
- To facilitate communications to an individual for whose benefit Coastal provides employee benefits or other services pursuant to a contract with an employer related to and arising out of the current employment relationship or status of the individual as a participant or beneficiary of an employee benefit plan;
- To perform services on behalf of an affiliate, except that this paragraph shall not be construed as permitting Coastal to send marketing solicitations on behalf of an affiliate if the affiliate would not be permitted to send the marketing solicitation as a result of the election of the consumer to opt out under this subpart;
- In response to a communication about Coastal's products or services initiated by the consumer;
- In response to an authorization or request by the consumer to receive solicitations; or
- If Coastal's compliance with this subpart would prevent Coastal from complying with any provision of State insurance laws pertaining to unfair discrimination in any State in which Coastal is lawfully doing business.

### **3.3.12.5 Opting Out**

#### **a. Acceptable Methods**

- Designating a check-off box in a prominent position on the opt out form;
- Including a reply form and a self-addressed envelope together with the opt out notice;
- Providing an electronic means to opt out, such as a form that can be electronically mailed or processed at an Internet Web site, if the consumer agrees to the electronic delivery of information;
- Providing a toll-free telephone number that consumers may call to opt out; or
- Allowing consumers to exercise all of their opt out rights described in a consolidated opt out notice that includes the GLBA privacy, FCRA affiliate sharing, and FCRA affiliate marketing opt outs, by a single method, such as by calling a single toll-free telephone number.

#### **b. Unacceptable Methods**

- Requiring the consumer to write his or her own letter;
- Requiring the consumer to call or write to obtain a form for opting out, rather than including the form with the opt out notice; or
- Requiring the consumer who receives the opt out notice in electronic form only, such as through posting at an Internet Web site, to opt out solely by paper mail or by visiting a different Web site without providing a link to that site.

### **3.3.12.6 Contents of Opt Out Notice**

The opt out notice must disclose:

- The name of the affiliate(s) providing the notice. If the notice is provided jointly by multiple affiliates and each affiliate shares a common name, such as "ABC," then the notice may indicate it is being provided by multiple companies with the ABC name or multiple companies in the ABC group or family of companies, for example, by stating that the notice is provided by "all of the ABC companies," "the ABC banking, credit card, insurance, and securities companies," or by listing the name of each affiliate providing the notice. But if the affiliates providing the joint notice do not all share a common name, then the notice must either separately identify each affiliate by name or identify each of the common names used by those affiliates, for example, by stating that the notice is provided by "all of the ABC and XYZ companies" or by "the ABC banking and securities companies and the XYZ insurance companies;"
- A list of the affiliates or types of affiliates whose use of eligibility information is covered by the notice, which may include companies that become affiliates after the notice is provided to the consumer. If each affiliate covered by the notice shares a common name, such as "ABC," then the notice may indicate that it applies to multiple companies with the ABC name or multiple companies in the ABC group or family of companies, for example, by stating that the notice is provided by "all of the ABC companies," "the ABC banking, credit card, insurance, and securities companies," or by listing the name of each affiliate providing the notice. But if the affiliates covered by the notice do not all share a common name, then the notice must either separately identify each covered affiliate by name or identify each of the common names used by those affiliates, for example, by stating that the notice applies to "all of the ABC and XYZ companies" or to "the ABC banking and securities companies and the XYZ insurance companies;"
- A general description of the types of eligibility information that may be used to make marketing solicitations to the consumer;
- That the consumer previously elected to limit the use of certain information to make marketing solicitations to the consumer;
- That the consumer's election has expired or is about to expire;
- That the consumer may elect to renew the consumer's previous election;
- If applicable, that the consumer's election to renew will apply for the specified period of time stated in the notice and that the consumer will be allowed to renew the election once that period expires; and
- A reasonable and simple method for the consumer to opt out.

### **3.3.12.7 Length of Opt Out Period**

The opt out period shall last 5 years.

### **3.3.12.8 Renewal of Opt Out Notice**

Coastal will provide the renewal notice to the consumer either:

- Within a reasonable period of time before the expiration of the opt out period; or
- At any time after the expiration of the opt out period but before marketing solicitations that would have been prohibited by the expired opt out are made to the consumer.

### 3.3.13 Lost Clients

The SEC adopted Rule 17Ad-17 under the Securities Exchange Act of 1934 in 1997 to address situations where recordkeeping transfer agents lose contact with securityholders by requiring transfer agents to conduct database searches for lost securityholders. This loss of contact has various causes, but it most frequently results from: (1) failure of a securityholder to notify the transfer agent of his/her correct address, especially after relocating to a new address or (2) failure of the estate of a deceased securityholder to notify the transfer agent of the death of the securityholder and the name and address of the trustee for the estate.

The SEC recently proposed to extend the rule to investment advisers. Advisers would be required to take certain minimal efforts to locate missing clients. A missing client would be a client to whom the adviser has sent correspondence at the address contained in the client's account records only to have it returned twice as undeliverable after sending it twice in the course of a month.

### 3.3.14 Selective Disclosure of Portfolio Information

From time to time, Coastal may disclose confidential portfolio information to certain persons, including other clients and third party service providers. When making such selective disclosures, Coastal shall take steps to protect the confidentiality of the information selectively disclosed. At a minimum, such steps shall include:

- Entering in a confidentiality agreement with the recipient of the selectively disclosed information, which shall, among other things, prohibit such recipient from disclosing the information to other persons;
- Protecting the information during its transmission, including for example, protective files if the information is transmitted electronically and verifying the recipient in advance of the transmission; and
- Electing to not transmit portfolio information if any client will be harmed by the selective disclosure of the information.

Coastal may not:

- receive compensation or other consideration in connection with the release to any person of information regarding client portfolio holdings; and
- release information regarding client portfolio holdings to any person if Coastal has knowledge that the recipient of such information has received, is receiving or will receive compensation or other consideration in connection with the release of the information.

### 3.3.15 Identity Theft Prevention Program

Coastal has determined that it meets the definition of financial institution for purposes of Regulation S-ID and therefore has adopted this Identity Theft Prevention Program. It is designed to identify, detect and respond to patterns, practices and specific activities (called "red flags") that could indicate identity theft.

This Identity Theft Prevention Program addresses:

- identifying relevant identity theft red flags for Coastal,
- detecting those red flags,
- responding appropriately to any that are detected to prevent and mitigate identity theft, and
- updating its Identity Theft Prevention Program periodically to reflect changes in risks.

#### 3.3.15.1 Identity Theft Prevention Policy

It is Coastal's policy to protect its clients and their accounts from identity theft and to comply with applicable regulations including the SEC's Regulation S-ID. Coastal does this by developing and implementing this written Identity Theft Prevention Program, which is appropriate to Coastal's size and complexity, as well as the nature and scope of firm activities.

The Identity Theft Prevention Program, including the procedures and internal controls, will be reviewed and updated periodically to ensure they account for changes both in regulations and in firm business.

### **3.3.15.2 Identity Theft Prevention Policy and Procedures Requirement**

Coastal periodically will determine whether it is a "financial institution" or "creditor" that maintains "covered accounts" for purposes of Regulation S-ID, potentially requiring it to adopt and maintain identity theft policy and procedures.

#### *Financial Institution*

Coastal will be a "financial institution" if it provides, either directly or indirectly through a clearing firm, "consumer" "transaction accounts." Coastal will not be a Financial Institution if it has only non-individuals (i.e., entities, institutions, etc.) as clients. If Coastal is not a financial institution because, for example, it has only institutional clients, it can still be a "creditor."

#### *Transaction Account*

Coastal will maintain a "transaction account" if it has accounts that allow account holders to make withdrawals for payment or transfer of funds to third parties by telephone transfers, checks, debit cards or similar means.

#### *Consumer*

Coastal's non-entity clients generally are deemed to be "consumers" since "consumer" is defined as an individual.

#### *Creditor*

Coastal will be a "creditor" if it regularly extends, renews or continues credit (such as margin) or arranges for its extension, renewal or continuation (such as through a clearing firm).

#### *Covered Account*

If Coastal is either a financial institution or a creditor, it will then analyze whether it offers "covered accounts." Covered accounts are any accounts that either:

1. Coastal offers primarily for personal, family or household purposes and involve multiple payments (such as credit card, margin, checking or savings accounts), or
2. Involve a reasonably foreseeable risk from identity theft to clients or the safety and soundness of Coastal.

The SEC when it adopted Regulation S-ID gave the following examples of investment advisers that may fall within the definition of "financial institution" with respect to separate account and fund relationships:

- An investment adviser that directly or indirectly holds transaction accounts and that is permitted to direct payments or transfers out of those accounts to third parties could fall within the meaning of the term "financial institution" because it holds transaction accounts belonging to individuals.
- Even if an investor's assets are physically held with a qualified custodian, an adviser that has authority, by power of attorney or otherwise, to withdraw money from the investor's account and direct

payments to third parties according to the investor's instructions would hold a transaction account.

- Registered investment advisers to private funds may directly or indirectly hold transaction accounts. If an individual invests money in a private fund, and the adviser to the fund has the authority, pursuant to an arrangement with the private fund or the individual, to direct such individual's investment proceeds (e.g., redemptions, distributions, dividends, interest, or other proceeds related to the individual's account) to third parties, then that adviser would indirectly hold a transaction account. For example, a private fund adviser would hold a transaction account if it has the authority to direct an investor's redemption proceeds to other persons upon instructions received from the investor.

The SEC when adopting Regulation S-ID gave the following example of circumstances in the private fund context under which an investment adviser could be acting as a "creditor:"

- An investment adviser could potentially qualify as a creditor if it "advances funds" to an investor that are not for expenses incidental to services provided by that adviser. For example, a private fund adviser that regularly and in the ordinary course of business lends money, short-term or otherwise, to permit investors to make an investment in the fund, pending the receipt or clearance of an investor's check or wire transfer, could qualify as a creditor.

### **3.3.15.3 Identity Theft Officer**

Coastal's Board of Directors has approved this Identity Theft Prevention Program. The Chief Compliance Officer is the designated identity theft officer and is responsible for the oversight, development, implementation and administration (including staff training and oversight of third party service providers) of this Identity Theft Prevention Program.

### **3.3.15.4 Consistency with Other Privacy Procedures**

Coastal periodically reviews other policies and procedures of Coastal that are required by regulations regarding the protection of client information, including Coastal's policies and procedures under Regulation S-P, and its client identification procedures under its AML Compliance Program in the formulation of this Identity Theft Prevention Program, and modifies either them or this Identity Theft Prevention Program to minimize inconsistencies and duplicative efforts.

### **3.3.15.5 Identifying Relevant Red Flags**

To identify relevant red flags, Coastal assesses the following risk factors:

- the types of client accounts it offers,
- the methods it provides to open or access these accounts, and
- previous experience with identity theft.

Coastal considers the sources of Red Flags, including identity theft incidents Coastal has experienced, changing identity theft techniques Coastal thinks likely, and applicable supervisory guidance.

Coastal considers red flags from the following categories, as they fit Coastal's situation:

1. alerts, notifications or warnings from a credit reporting agency;
2. suspicious documents;
3. suspicious personal identifying information;

4. suspicious account activity; and
5. notices from other sources.

These categories are from Supplement A to Appendix A of the FTC's Red Flags Rule. That Supplement also contains 26 numbered examples under them. Coastal reviews these categories and examples to determine their relevance to Coastal.

### **3.3.15.6 Detecting Red Flags**

Coastal periodically reviews its client accounts, how it opens and maintains them, and how to detect red flags that may have occurred in them. Coastal's detection of those red flags is based on its methods of getting information about prospective clients and verifying it under Coastal's client identification procedures of its AML compliance procedures, authenticating clients who access the accounts, and monitoring transactions and change of address requests. For opening prospective client accounts, that can include getting identifying information about and verifying the identity of the person opening the account by using Coastal's client identification procedures. For existing client accounts, it can include authenticating clients, monitoring transactions, and verifying the validity of changes of address.

### **3.3.15.7 Preventing and Mitigating Identity Theft**

Coastal periodically reviews its client accounts, how it opens and allows access to them, and its previous experience with identity theft, as well as new methods of identity theft Coastal has seen or foresee as likely. Based on this review, the following procedures have been developed to respond to detected identity theft red flags.

#### *Procedures to Prevent and Mitigate Identity Theft*

When Coastal has been notified of a red flag or its detection procedures show evidence of a red flag, the following steps, as appropriate to the type and seriousness of the threat, will be taken. In taking these steps, Coastal will refer to its Red Flag Identification and Detection Grid.

*Prospective Clients.* For Red Flags raised a prospective client applying to open an account:

1. *Review the application.* The Firm reviews the prospective client's information collected for its client identification procedures ("CIP") under its AML Compliance Program (e.g., name, date of birth, address, and an identification number such as a Social Security Number or Taxpayer Identification Number).
2. *Get government identification.* If the prospective client is applying in person, Coastal will check a current government-issued identification card, such as a driver's license or passport.
3. *Seek additional verification.* If the potential risk of identity theft indicated by the Red Flag is probable or large in impact, Coastal may also verify the person's identity through non-documentary CIP methods, including:
  - o Contacting the prospective client;
  - o Independently verifying the client's information by comparing it with information from a credit reporting agency, public database or other source such as a data broker or the Social Security Number Death Master File;
  - o Checking references with other affiliated financial institutions; or
  - o Obtaining a financial statement.
4. *Deny the application.* If Coastal finds that the prospective client is using an identity other than his or her own, it will deny the account.
5. *Report.* If Coastal finds that the prospective client is using an identity other than his or her own, it will report it to appropriate local and state law enforcement; where organized or wide spread crime is suspected, the FBI or Secret Service; and if mail is involved, the US Postal Inspector. Coastal may also report to the SEC; State regulatory authorities, such as the state securities commission; and its custodian.

6. *Notification.* If Coastal determines personally identifiable information has been accessed, it will prepare any specific notice to the prospective client or other required notice under state law.

*Access seekers.* For Red Flags raised by someone seeking to access an existing client's account:

1. *Watch.* The Firm will monitor, limit, or temporarily suspend activity in the account until the situation is resolved.
2. *Check with the client.* The Firm will contact the client using its CIP information for them, describe what it has found and verify with them that there has been an attempt at identify theft.
3. *Heightened risk.* The Firm will determine if there is a particular reason that makes it easier for an intruder to seek access, such as a client's lost wallet, mail theft, a data security incident, or the client's giving account information to an imposter pretending to represent Coastal or to a fraudulent web site.
4. *Check similar accounts.* The Firm will review similar accounts Coastal has to see if there have been attempts to access them without authorization.
5. *Collect incident information.* For a serious threat of unauthorized account access Coastal may collect if available:
  - o Dates and times of activity;
  - o Securities involved (name and symbol);
  - o Details of trades or unexecuted orders;
  - o Details of any wire transfer activity;
  - o Client accounts affected by the activity, including name and account number; and
  - o Whether the client will be reimbursed and by whom.
6. *Report.* If Coastal finds unauthorized account access, it will report it to appropriate local and state law enforcement; where organized or wide spread crime is suspected, the FBI or Secret Service; and if mail is involved, the U.S. Postal Inspector.
7. *Notification.* If Coastal determines personally identifiable information has been accessed that results in a foreseeable risk for identity theft, it will prepare any specific notice to clients or take any other required action under state law.
8. *Review firm insurance policy.* Since insurance policies may require timely notice or prior consent for any settlement, Coastal will review its insurance policy to ensure that its response to a data breach does not limit or eliminate its insurance coverage.
9. *Assist the client.* The Firm will work with its clients to minimize the impact of identity theft by taking the following actions, as applicable:
  - o Directing the client to the appropriate party to change the password, security codes or other ways to access the threatened account;
  - o Offering to close the account;
  - o Offering to reopen the account with a new account number;
  - o Not collecting on the account or selling it to a debt collector; and
  - o Instructing the client to go to the FTC Identity Theft Web Site to learn what steps to take to recover from identity theft.

### **3.3.15.8 Updates and Annual Review**

Coastal updates its Identity Theft Prevention Program whenever it has a material change to its operations, structure, business or location or to those of its custodian, or when it experiences either a material identity theft from a client account, or a series of related material identity thefts from one or more client accounts. Coastal also follows new ways that identities can be compromised and evaluates the risk they pose for Coastal. In addition, Coastal will review this Identity Theft Prevention Program periodically to modify it for any changes in its operations, structure, business, or location or substantive changes to its relationship with its custodian.

### **3.3.15.9 Red Flag Identification and Detection Grid**

The following grid is designed to provide categories and examples of potential red flags. Coastal recognizes that these examples are not exhaustive nor a mandatory checklist, but a way to help Coastal think through relevant



red flags in the context of its business. Some examples may not be relevant to Coastal, while others may be relevant when combined or considered with other indicators of identity theft. Coastal from time to time shall modify the cells in the table below.

Red Flag	Detecting the Red Flag
<b>Category: Alerts, Notifications or Warnings from a Consumer Credit Reporting Agency</b>	
1. A fraud or active duty alert is included on a consumer credit report.	Coastal will verify that the fraud or active duty alert covers an applicant or client and review the allegations in the alert.
2. A notice of address or other discrepancy is provided by a consumer credit reporting agency.	Coastal will verify that the notice of address or other discrepancy covers an applicant or client and review the address discrepancy.
3. A consumer credit report shows a pattern inconsistent with the person's history, such as a big increase in the volume of inquiries or use of credit, especially on new accounts; an unusual number of recently established credit relationships; or an account closed because of an abuse of account privileges.	Coastal will verify that the consumer credit report covers an applicant or client, and review the degree of inconsistency with prior history.
<b>Category: Suspicious Documents</b>	
4. Identification presented looks altered or forged.	Coastal's staff who deals with clients will scrutinize identification presented in person to make sure it is not altered or forged.
5. The identification presenter does not look like the identification's photograph or physical description.	Coastal's staff who deals with clients will ensure that the photograph and the physical description on the identification match the person presenting it.
6. Information on the identification differs from what the identification presenter is saying.	Coastal's staff who deals with clients will ensure that the identification and the statements of the person presenting it are consistent.
7. Information on the identification does not match other information Coastal has on file for the presenter, like the original account application, signature card or a recent check.	Coastal's staff who deals with clients will ensure that the identification presented and other information we have on file from the account are consistent.
8. The application looks like it has been altered, forged or torn up and reassembled.	Coastal's staff who deals with clients will scrutinize each application to make sure it is not altered, forged, or torn up and reassembled.
<b>Category: Suspicious Personal Identifying Information</b>	
9. Inconsistencies exist between the information presented and other things we know about the presenter or can find out by checking readily available external sources, such as an address that does not match a consumer credit report, or the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA's) Death Master File.	Coastal's staff will check personal identifying information presented to Coastal to ensure that the SSN given has been issued but is not listed on the SSA's Master Death File. If Coastal receives a consumer credit report, they will check to see if the addresses on the application and the consumer report match.
10. Inconsistencies exist in the information that the client gives Coastal, such as a date of birth that does not fall within the number range on the SSA's issuance tables.	Coastal's staff will check personal identifying information presented to Coastal to make sure that it is internally consistent by comparing the date of birth to see that it falls within the number range on the SSA's issuance tables.

11. Personal identifying information presented has been used on an account Coastal knows was fraudulent.	Coastal's staff will compare the information presented with addresses and phone numbers on accounts or applications Coastal's staff found or were reported were fraudulent.
12. Personal identifying information presented suggests fraud, such as an address that is fictitious, a mail drop, or a prison; or a phone number is invalid, or is for a pager or answering service.	Coastal's staff will validate the information presented when opening an account by looking up addresses on the Internet to ensure they are real and not for a mail drop or a prison, and will call the phone numbers given to ensure they are valid and not for pagers or answering services.
13. The SSN presented was used by someone else opening an account or other clients.	Coastal's staff will compare the SSNs presented to see if they were given by others opening accounts or other clients.
14. The address or telephone number presented has been used by many other people opening accounts or other clients.	Coastal's staff will compare address and telephone number information to see if they were used by other applicants and clients.
15. A person who omits required information on an application or other form does not provide it when told it is incomplete.	Coastal's staff will track when applicants or clients have not responded to requests for required information and will follow up with the applicants or clients to determine why they have not responded.
16. Inconsistencies exist between what is presented and what Coastal has on file.	Coastal's staff will verify key items from the data presented with information Coastal has on file.
17. A person making an account application or seeking access cannot provide authenticating information beyond what would be found in a wallet or consumer credit report, or cannot answer a challenge question.	Coastal's staff will authenticate identities for existing clients by asking challenging questions that have been prearranged with the client and for prospective clients by asking questions that require information beyond what is readily available from a wallet or a consumer credit report.
<b>Category: Suspicious Account Activity</b>	
18. Soon after Coastal gets a change of address request for an account, Coastal is asked to add additional access means (such as debit cards or checks) or authorized users for the account.	Coastal will verify change of address requests by sending a notice of the change to both the new and old addresses so the client will learn of any unauthorized changes and can notify Coastal.
19. An account develops new patterns of activity, such as a material change in spending or electronic fund transfers.	Coastal will review client accounts on at least a monthly basis and check for suspicious new patterns of activity such as nonpayment, a large increase in use, or a big change in spending or electronic fund transfers.
20. An account that is inactive for a long time is suddenly used again.	Coastal will review client accounts on at least a monthly basis to see if long inactive accounts become very active. [In addition, <i>describe any other steps Coastal takes.</i> ]
21. Mail Coastal sends to a client is returned repeatedly as undeliverable even though the account remains active.	Coastal will note any returned mail for an account and immediately check the account's activity.
22. Coastal learns that a client is not getting his or her paper account statements.	Coastal will record on the account any report that the client is not receiving paper statements and immediately investigate them.
23. Coastal is notified that there are unauthorized transactions to the account.	Coastal will verify if the notification is legitimate and involves a firm account, and then investigate the report.

<b>Category: Notice From Other Sources</b>	
24. Coastal is told that an account has been opened or used fraudulently by a client, an identity theft victim, or law enforcement.	Coastal will verify that the notification is legitimate and involves a firm account, and then investigate the report.
25. Coastal learns that unauthorized access to the client's personal information took place or became likely due to data loss (e.g., loss of wallet, birth certificate, or laptop), leakage, or breach.	Coastal will contact the client to learn the details of the unauthorized access to determine if other steps are warranted.

### **3.3.16 Cybersecurity**

Coastal maintains a separate *Cybersecurity and Personal Information Protection Policy*. Each Advisor is provided this document at the inception of registration and is required, both initially and annually thereafter, to acknowledge receipt and compliance with the Policy. The Policy sets forth the policies and procedures by which Coastal attempts to protect information and client assets from cyber attacks by managing the various cybersecurity risks to systems, assets, data, and capabilities.

### **3.3.17 FATCA**

The Foreign Account Tax Compliance Act ("FATCA") generally imposes registration, due diligence, withholding and reporting obligations on certain investment funds and investment fund managers. Under the U.S. Treasury regulations, certain foreign financial institutions ("FFIs"), including investment funds and investment managers that are organized outside of the U.S., would be required to register and enter into an agreement (an "FFI Agreement") with the U.S. Internal Revenue Service ("IRS") in order to ensure compliance with FATCA. Not all foreign entities must be FATCA-compliant. Many factors, including source and type of income, affiliations with other foreign entities and business relationships may affect the determination of whether a foreign entity must be FATCA-compliant. As of June 2014, more than 77,000 banks and other financial institutions located abroad have agreed, effective July 1, 2014, to report data on U.S. accounts.

#### **3.3.17.1 FATCA Compliance**

From time to time Coastal with the assistance of counsel will determine whether it or any of its related persons or clients are subject to FATCA. FATCA applies to any foreign entity with U.S. clients or assets that provide U.S. source income. A FFI is an entity that:

- accepts deposits in the ordinary course of business or similar business;
- holds financial assets for the account of others as a substantial portion of its business; or
- is engaged in the business of investing, re-investing or trading in securities, partnership interests, commodities or any interest in such securities, partnership interest or commodities.

FFIs include institutions such as:

- banks;
- building societies;
- brokers;
- asset managers;
- insurance companies;
- custodians;
- clearing houses;
- withholding agents; and
- funds including hedge funds, funds of funds, private equity funds and ETFs.

### 3.3.17.2 U.S. Funds with U.S. Investors Only

With respect to U.S. private funds (*i.e.*, private funds organized in the U.S.) that only have U.S. investors as defined for tax purposes ("U.S.-Only Funds") managed by Coastal, Coastal on behalf of each such U.S.-Only Fund at least annually will obtain an IRS Form W-9 from each investor to confirm that the investor is a "U.S. person" for U.S. federal income tax purposes. U.S.-Only Funds include U.S. stand-alone funds, U.S. feeder funds and U.S. master funds.

To be "valid," the IRS Form W-9 will:

1. contain the investor's name and taxpayer identification number, and
2. be signed and dated under penalties of perjury by the investor or a person authorized to sign for the investor.

If an investor for any reason does not provide a valid IRS Form W-9, Coastal will promptly contact such investor and instruct such investor to provide the Form W-9.

### 3.3.17.3 U.S. Master Funds with Offshore Feeder Funds

With respect to U.S. master funds with offshore feeder funds that are treated as corporations for U.S. tax purposes (*e.g.*, a Delaware limited partnership master with a Cayman Islands feeder), Coastal will:

- register each offshore feeder fund with the online "FATCA Registration Portal," which is accessed through the IRS's web site;
- maintain each Global Intermediary Identification Number ("GIIN") issued by the IRS to each offshore feeder fund;
- complete an IRS Form W-8 for each offshore feeder fund;
- maintain each offshore fund's completed Form W-8 in the U.S. master fund's files; and
- periodically verify that the offshore feeder fund and its GIIN continue to be included in the published IRS list of FATCA-compliant entities.

The information required by the registration process and the obligations of the offshore feeder fund once registered depend on the country in which the offshore feeder fund is organized. The U.S. is or has been in the process of concluding FATCA-related Intergovernmental Agreements ("IGAs") with countries throughout the world, based on two model agreements: the Model 1 IGA and the Model 2 IGA.

### 3.3.17.4 Offshore Feeder and Master Funds

With respect to each offshore fund, Coastal will:

- register each such offshore fund with the IRS using the online "FATCA Registration Portal," which is accessible through the IRS's website;
- confirm after registration that each of the offshore funds (1) received a GIIN, (2) received a special taxpayer identification number for FATCA purposes, and (3) its name and GIIN is included in an online list of FATCA-compliant entities.

With respect to each master offshore fund, Coastal will make sure that:

- each such master fund maintains a valid IRS Form W-9 for its U.S. feeder fund in its files;
- each such master fund maintains an IRS Form W-8 (post-FATCA version) for its offshore feeder funds;

- each such master fund maintains an IRS Form W-8 (post-FATCA version) for itself and furnishes it to entities in which it invests, if required; and
- the offshore feeder fund and its GIIN continue to be included in the published IRS list of FATCA-compliant entities.

The specific FATCA compliance obligations of an offshore master fund or an offshore feeder fund depend on the foreign jurisdiction in which such offshore fund is organized.

**Model 1 IGA:** With respect to each offshore fund organized in a Model 1 jurisdiction, Coastal will refer to the applicable Model 1 IGA and local law to determine its FATCA compliance requirements.

**Model 2 IGA and Non-IGA Jurisdictions:** With respect to each offshore fund organized in either a Model 2 jurisdiction (or in a country that is not a party to an IGA), Coastal generally will refer to the U.S. FATCA regulations to determine its FATCA compliance requirements.

For each offshore fund that is in a Model 2 or non-IGA jurisdiction, Coastal on behalf of such offshore fund will enter into an agreement with the IRS, pursuant to which the offshore fund will agree to undertake:

- certain due diligence obligations with respect to its current and future owners,
- submit information returns to the IRS with respect to certain U.S. owners, and
- conduct withholding on payments or allocations of certain U.S.-source income to non-U.S. entity owners that fail to comply with FATCA.

### 3.3.17.5 FATCA Penalties

FATCA imposes a 30% withholding tax on certain U.S. source payments made to FFIs and non-financial foreign entities ("NFFEs") that fail to identify certain U.S. investors even if such U.S. persons directly or indirectly hold only non-U.S. assets. FATCA requires withholding agents to apply a 30% withholding tax on 'withholdable payments' to non-compliant FFIs and NFFEs. Withholdable payments include:

- interest, dividends and other periodic payments from U.S. assets;
- gross proceeds on the disposition of property of the type that can produce interest or dividends from a U.S. source; and
- deposit interest paid by U.S. and foreign branches of U.S. bank, even though portions of this interest may not be treated as U.S. source under current U.S. tax law.

## 3.4 Form ADV Disclosure

Coastal shall (1) describe in its Brochure (Part 2A) the type of information that Coastal or the broker-dealer or financial institution that maintains client securities accounts sends to clients; or (2) attach a copy of its Privacy Notice to its Brochure, which is sent annually to clients.

## 3.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(14)]

Coastal will maintain for each client account the following information and documents where applicable:

- Whether or not the client's account is managed on a discretionary basis;
- Type of client (e.g., natural person, entity, etc.);
- Type of account;
- Whether or not the client is related to Coastal or its officers;

- Whether or not a performance fee is charged on the account;
- Whether or not a client directs brokerage, and if applicable, the name of the brokerage firm and the total amount directed;
- Whether or not Coastal has a power-of-attorney over the account;
- Whether or not Coastal deducts its advisory fee from the account;
- Executed Investment Advisory Contract;
- Incoming and Outgoing correspondence with client;
- Coastal Account Opening Form;
- Account statements generated by Coastal and/or the broker-dealer or financial institution that maintains the account;
- Trade confirmations;
- Fee invoices;
- Custodial or trust agreements; and
- Copies of form letters (sent to 5 or more persons), form e-mails (sent to 5 or more persons), newsletters and other communications sent to client.

Coastal shall also maintain in its general books and records:

- Documents related to the privacy of client records, including the delivery of privacy notices to new and existing clients;
- Records of each complaint that includes the date of receipt of the complaint; the name of the client making the complaint; documentation of the cause of the complaint;
- Documentation of the cause of the complaint;
- Any and all documents or other records generated in connection with a complaint, including the correspondence containing the complaint, the actions taken in connection with the complaint, and any agreement or action taken to resolve the complaint;
- A current list of all clients;
- A list of clients who terminate their advisory relationship with Coastal; and
- Letters, e-mails and other correspondence or communications sent by clients to Coastal.

Coastal shall maintain a record of the dates that the Brochure and each Brochure Supplement and each amendment or revision thereof, was given to any client or prospective client who subsequently becomes a client (Rule 204-2(a)(14)).

## 4 ADVISORY CONTRACT & FEES

### Introduction

An investment advisory contract governs the relationship between the adviser and its client, including the fee that the client pays the adviser for its services. The SEC has stated that its examiners often look to see if an investment adviser is complying with its own representations and the expectations of its clients as set forth in the advisory contract. It has cited advisers for failing to fulfill contractual obligations.

A client also may sue an investment adviser by bringing a breach of contract claim or the dispute may be settled in an arbitration proceeding. In any such action, the terms of the investment advisory contract will be critical to the ultimate outcome of the suit or action.

The Investment Advisers Act of 1940 expressly regulates only one kind of fee -- the performance fee. A performance fee is a fee charged by an adviser based upon the capital gain or appreciation of a client's account. A fee based upon the client's assets under management is not deemed to be a performance fee. Performance fees are generally permissible only for accounts of high net worth individuals (i.e., with a net worth exceeding \$750,000). Other types of fees such as a flat fee, asset-based fee or hourly fee need only be reasonable, fair and fully disclosed to clients.

It is important at the outset that Coastal and each new client establish clearly in the investment advisory contract which party has the discretion to place securities orders for the client. Generally, an investment adviser is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's permission.

### 4.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Rule 204-2; Investment Advisers Act of 1940 Section 205(a)(2) and 206]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Legal Officer</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Legal</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Each time Coastal obtains a new client</li><li>• Each time Coastal bills its clients for advisory services</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Rule 204-2 and Sections 205(a)(2) and 206 of the Investment Advisers Act of 1940</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• Originally Executed Advisory Contract</li></ul>
<b>Audit</b>	<ul style="list-style-type: none"><li>• Coastal audits its Advisory Contract &amp; Fees Procedures annually.</li></ul>

### 4.2 Policy

It is Coastal's policy to enter into a written investment advisory contract with each client.

## **4.3 Procedures**

### **4.3.1 Investment Advisory Contract Provisions**

Coastal will enter into a written investment advisory contract with each of its clients for whom Coastal acts as an investment adviser or manages any investment or trading account. Coastal generally will use its standard form of Investment Advisory Contract.

#### **4.3.1.1 Arbitration Clause**

The arbitration clause in each Investment Advisory Contract between Coastal and a client will not be worded to lead a client to believe that he or she has waived any legal rights against Coastal and any rights provided to the client by the Advisers Act. Such clause shall state that it does not constitute a waiver or limitation of any of the rights the client may have under the Advisers Act, any other federal securities laws and any state securities laws.

*See McEldowney Financial Services* (pub. avail. Sept. 17, 1986).

#### **4.3.1.2 Assignments**

[Investment Advisers Act of 1940 Section 205(a)(2)]

Pursuant to Section 205(a)(2) of the Investment Advisers Act of 1940, the Investment Advisory Contract between Coastal and each client will contain a provision prohibiting the assignment of the contract without the consent of the client.

#### **4.3.1.3 Conflicts of Interest, Brokerage and Other Practices**

Coastal's Investment Advisory Contract will contain provisions describing its brokerage practices and other areas that may present a conflict of interest between Coastal and a client. These provisions may be incorporated by reference to the Firm's Disclosure Statement (ADV Part 2.) Such disclosures, when applicable, shall describe:

- brokerage practices
- use of soft dollars
- agency cross trades
- directed brokerage arrangements
- aggregation (bunching) of trades
- allocation of trades

If an employee of Coastal is also a registered representative of a broker-dealer, the contract will address whether Coastal may execute trades through such broker-dealer.

#### **4.3.1.4 Custody**

[Investment Advisers Act of 1940 Rule 206(4)-2]



Each Coastal Advisory Contract will describe the custodian arrangements of client assets, including where client assets will be maintained (the adviser, bank, broker-dealer or other financial institution).

Unless it is Coastal's intention to have "custody" over client assets for purposes of the SEC's custody rule (Rule 206(4)-2 under the Investment Advisers Act of 1940 and addressed in the "Custody" chapter in this Compliance Manual), each Coastal Advisory Contract will not:

- contain a provision granting it discretionary authority from any client to withdraw cash or wire transfer money order payments to Coastal or third parties;
- grant Coastal the authority to pay or receive funds of any client except in connection with securities transactions; and
- grant Coastal a power of attorney or other right that would cause Coastal to have access to, or the right to convey, assets of any client, except in connection with securities transactions.

#### 4.3.1.5 Discretionary Authority

A discretionary account allows the adviser, at its discretion, to decide:

- when to buy and sell securities for the client;
- what securities to buy and sell for the client; and
- the price to pay or receive for securities bought and sold for the client.

There are two general types of discretionary authority:

- *Full Trading Authority*: Coastal, including the applicable Adviser Representative, has full power to make purchase and sale transactions on behalf of the client; and
- *Limited Trading Authority*: Coastal, including the applicable Adviser Representative, may purchase and sell securities on behalf of a client only in the manner specified in the Trading Authorization Form.

The Adviser Representative, upon request by a new client that he or she desires to grant limited investment discretionary authority to Coastal, will forward such request to the Chief Legal Officer who will verify the following:

- The client's Investment Advisory Contract contains a provision expressly granting discretionary authority to Coastal or has a Power of Attorney attached to the Contract that grants discretionary authority to Coastal;
- The new client will be instructed to review the discretionary trading clause or Power of Attorney prior to executing the document(s); and
- The discretionary trading clause in the Investment Advisory Contract or the Power of Attorney will indicate either that limited trading authority has been given, and if limited trading authority has been granted, the specific type of limited trading authority, such as the authority to:
  - select the security to be purchased or sold for the account;
  - determine the amount of the security to be purchased or sold;
  - select the time of the transaction; and/or
  - determine the unit price that is to be paid or received.

#### 4.3.1.6 ERISA

[ERISA Section 3(21); Internal Revenue Code Section 4957(e)(3)]

If a client's assets are "plan assets" (i.e., securities or other assets owned by an employee benefit plan), Coastal's Investment Advisory Contract will contain a clause that appoints Coastal to be an "investment manager" for purposes of ERISA and the Internal Revenue Code. An "investment manager" is an investment adviser that has actual authority to acquire, manage or dispose of plan assets. In such clause, Coastal will

acknowledge that it is a "fiduciary" within the meaning of Section 3(21) of ERISA and Section 4957(e)(3) of the Internal Revenue Code.

#### **4.3.1.7 Fees and Other Expenses**

Each Coastal Advisory Contract will describe how Coastal calculates advisory fees, other expenses that the client is contractually required to pay, and the method and timing for making advisory fee payments to Coastal.

#### **4.3.1.8 Investment Advisory Services**

Each Coastal Advisory Contract will contain a provision that accurately describes the types of advisory services that will be provided to the client.

#### **4.3.1.9 Pre-Paid Fees**

The Chief Financial Officer or designee will cause Coastal to refund any pre-paid fees that have not been earned at the termination of a contract with a client. This policy is designed to avoid placing a client who has pre-paid his or her advisory fee in the position of deciding between forfeiting the unused portion of his or her fee or continuing to receive account management services that the client no longer desires. However, when returning pre-paid fees, Coastal may deduct reasonable costs incurred in opening the client's account.

#### **4.3.1.10 Termination and Duration**

Each Coastal Advisory Contract will contain a clause describing how a client or Coastal may terminate the Investment Advisory Contract.

#### **4.3.1.11 Valuation**

Each Coastal Advisory Contract will contain a clause describing how Coastal values a client's securities and other assets.

#### **4.3.1.12 Waiver of Adviser Act Provisions or Disclaiming Liability**

[Investment Advisers Act of 1940 Section 215]

No Coastal Advisory Contract will contain a provision that will cause a client to waive compliance with any provision, rule or order under the Investment Advisers Act of 1940 or any other applicable law. In addition, no Coastal Advisory Contract will contain a hedge clause or other provision, which disclaims Coastal's liability for any violation of law. Such a provision would be deemed void by virtue of Section 215 of the Investment Advisers Act of 1940.

#### **4.3.1.13 Allocation of Expenses Among Clients**

Each Firm Investment Advisory Contract will contain a clause describing how Coastal allocates its Firm level expenses that clients are contractually required to pay among those clients ( e.g., pro rata based on each client's assets under the management of Coastal).

## **4.3.2 Advisory Fees**

Coastal will charge a fee that is reasonable in relation to the advisory services it provides; Coastal will not charge excessive fees.

### **4.3.2.1 Advisory Fee Type**

Coastal is compensated for rendering advisory services to clients in the following ways:

#### **4.3.2.1.1 Percentage Fee**

Coastal charges a fee based on client assets under management.

#### **4.3.2.1.2 Brokerage Commissions**

Coastal will earn commissions on the sale of securities products to clients only if Coastal is registered as a broker-dealer. An Adviser Representative will earn commissions on the sale of securities products to clients only if such Adviser Representative is a registered representative of a registered broker-dealer.

#### **4.3.2.1.3 Insurance Products**

Coastal or any Adviser Representative will earn commissions on the sale of insurance products to clients only if they are licensed as insurance agents with the appropriate state securities commissions.

#### **4.3.2.1.4 Wrap Fees**

If Coastal participates as an investment adviser in a broker-dealer's wrap fee program, it will disclose, or cause to be disclosed, to its clients participating in the program the portion of the wrap fee paid by a client to the broker-dealer that the broker-dealer allocates to Coastal.

### **4.3.2.2 Advisory Fee Rate**

Coastal will not charge excessive fees. The practice of charging excessive fees is considered a violation of the antifraud provisions of the Investment Advisers Act of 1940. Coastal will charge a fee that is reasonable in relation to the advisory services it provides. In determining the reasonableness of the fee, Coastal will examine the facts and circumstances of the particular adviser/client relationship.

#### **4.3.2.3 3% or Greater Advisory Fee Rate**

The SEC takes the position that an advisory fee that is 3% or greater of a client's assets under management is higher than that generally charged by other advisers, warranting special disclosure to clients.

If Coastal charges a fee of 3% or greater of a client's assets under management, Coastal will disclose to the client in its Investment Advisory Contract and make general disclosure in the Firm's Brochure (Part 2A) that its advisory fee is higher than that generally charged by other advisers for similar services.

#### **4.3.2.4 Fee Break Points**

Coastal considers reducing its advisory fee rate when client assets under management reach certain levels (i.e., break points). Such break points will be set forth in each Coastal Advisory Contract, where applicable.

#### **4.3.2.5 Calculation of Advisory Fees**

The Chief Financial Officer or designee shall make sure that Coastal calculates the advisory fee correctly and in the manner described in its Investment Advisory Contract and the Firm's Brochure (Part 2A). The firm checks fees on a sampled basis monthly.

#### **4.3.2.6 Contingency Fees**

Coastal will not charge a contingency fee without the approval of the Chief Legal Officer, who shall rely upon guidance from outside counsel including whether SEC no-action relief or exemptive relief would be necessary. A fee is contingent if Coastal will receive the fee only upon the occurrence of certain events (e.g., client only pays if the value of the client's account increases by 15%). Performance fees meeting the requirements of the Investment Advisers Act of 1940 are not contingent fees.

The SEC in the past has stated that certain types of contingent fees that have the effect of rewarding the adviser on positive performance are performance fees, which are prohibited by the Advisers Act unless the adviser can meet the conditions of Rule 205-3 under the Advisers Act (the performance fee rule). See *Investment Advisers Act Release No. 721 (May 16, 1980)*. This is because contingent fees can create the same conflicts of interest associated with performance fees. For example, the adviser may have an incentive to take undue risks, speculate, or overtrade to achieve a certain performance level that would award it the contingent fee.

In limited cases, however, the SEC has taken the position that a fee arrangement in which an adviser that offers an advisory fee rebate for poor performance by the adviser would be a permissible contingent fee. See *Amerivest Investment Management, LLC (pub. avail. Aug. 19, 2014)* (the rebate would be paid to a client who experiences two consecutive discrete calendar quarters of negative performance during a twelve-month period). It should be noted that the SEC relief is specific to the facts presented by the investment adviser who submitted the request and is subject to a number of conditions tailored to those facts.

Coastal only will consider imposing a contingent fee that provides a rebate to clients provided that such arrangement: (1) would not give Coastal the incentive to avoid the rebate by taking undue risks, timing transactions in a client's account or over-trading; and (2) would be deemed permissible by outside counsel and, if necessary, the SEC.

#### **4.3.2.7 Investments in Affiliated Investment Vehicles**

If an investment adviser invests client assets in a mutual fund or other investment vehicle affiliated with the adviser, such investment creates a conflict of interest since the adviser earns fees from the other investment

vehicle. In addition, the adviser would earn two fees for the same investment management services: one fee at the client level and the second fee at the investment vehicle level.

If the affiliated investment vehicle is a money market fund and the client investment is for cash management purposes, Coastal may collect fees at both levels provided:

- Coastal obtains the client's prior written consent;
- Coastal fully discloses to the client: (i) the double fee arrangement and the amounts of the double fee; (ii) the fact that the client's consent may be revoked anytime; (iii) the maximum amount of client assets that will be invested in the affiliated investment vehicle; and (iv) the criteria used by Coastal to determine that the client's investment in the affiliated investment vehicle is in the client's best interest.

If the affiliated investment vehicle is not a money market fund, Coastal will credit the client's account the amount it earns indirectly from the investment vehicle that is attributable to the client assets so that it does not earn a double investment management fee on such assets unless counsel has advised that such waiver of fees is not required.

If the client is an employee benefit plan or otherwise is subject to ERISA, Coastal will credit the client's account the amount it earns indirectly from the investment vehicle that is attributable to the client assets so that it does not earn a double investment management fee on such assets.

### **4.3.3 Investment Guidelines**

Prior to agreeing to any investment guidelines or restrictions imposed by the client ("Client Guidelines"), the attorney or other person negotiating the Investment Advisory Contract shall:

- Verify that the portfolio manager who will manage the account can manage the account in a manner consistent with such Client Guidelines and that compliance personnel can monitor such Client Guidelines;
- Instruct the appropriate investment adviser representative of Coastal to periodically contact the client to verify that the Client Guidelines are consistent with the client's investment objective;
- Review, and where necessary edit, the language in the Client Guidelines to make sure they are clear and specific as reasonably possible (e.g., a list of specific securities) and detailed description of categories of securities (e.g., no investments in "sin" stocks is not specific enough);
- Insert language in the Investment Advisory Contract that Coastal shall use its best efforts to comply with Client Guidelines; and
- Make sure any indemnification language in the Investment Advisory Contract excludes any indemnification by Coastal for failing to comply with a client investment guideline or restriction.

### **4.3.4 Updating the Investment Advisory Contract**

The Chief Legal Officer will be responsible for making sure that Coastal updates its standard Investment Advisory Contract to reflect changes in the law and Coastal's business practices. In some cases, Coastal will seek existing clients' approval to amend outstanding Investment Advisory Contracts to incorporate these changes in those documents.

### **4.3.5 Expenses**

Coastal may charge Firm expenses to clients only if:

- the type and amount of expenses to be charged to clients are appropriate for such clients;

- the type of expenses are not for costs or services necessary for Coastal to provide advisory services for which Coastal already earns an investment management fee to cover;
- the investment advisory agreement between Coastal and each client contains a provision identifying the type of expenses to be paid by the client;
- Coastal makes full, clear and accurate disclosures in the Part 2A of its Form ADV regarding its expense practices;
- the conflicts of interest associated with such expense practices have been identified and addressed;
- such expenses are allocated fairly across clients ( e.g., pro rata based on each client's assets under management with Coastal); and
- Coastal ensures that its expense practices are consistent with disclosure about such practices and investment advisory agreement contractual provisions governing such practices.

#### 4.3.6 Advisory Fee Billing

Coastal Investment Advisors will verify the advisory fee it charges clients by:

- Sampling a statistically relevant number of client accounts previously billed to ensure that fees charged match with fees disclosed in the client advisory agreements and the Coastal Investment Advisors Form ADV;
- If a tiered fee structure is in place for clients, verifying the correct amounts are charged taking into account the growth or reduction of the client's assets under management;
- Reviewing unique billing arrangements that vary from Coastal Investment's standard fee arrangements to verify Coastal Investment's bills for such arrangements are correct;
- Testing performance-based fee arrangements for proper calculation and compliance with Section 205(a)(1) of the Advisers Act and rules thereunder; and
- Making sure any clients with Most Favored Nations clauses in their advisory contracts are charged the correct fee.

#### 4.4 Form ADV Disclosure

Coastal recognizes that a client who is fully aware of the method and amount of its compensation is in the best position to make an informed decision regarding whether to retain Coastal for advisory services. As required by Part 2A of Form ADV, Coastal will describe its fees and how such fees are calculated in the Firm's Brochure. Coastal will also disclose any other direct or indirect compensation that it or any of its employees earn in connection with providing advisory services to a client (e.g., brokerage commissions and 12b-1 fees).

If Coastal charges a performance fee, it shall disclose in its Brochure (Part 2A):

- The performance fee arrangement may create an incentive for Coastal to make more risky or speculative investments than would be made under an ordinary fee arrangement;
- The periods that will be used to measure investment performance, including how the selection of such periods may influence the computation of the fee;
- The nature of any index that may be used to measure the performance and any material differences between the objective of the index and Coastal's investment objective; and
- Any conflicts of interest that arise when Coastal values illiquid securities in a client's portfolio that is subject to the performance fee.

If Coastal invests client assets in affiliated mutual funds or other investment vehicles, it shall make the disclosure about such investments set forth elsewhere in this chapter.

#### 4.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(10)]

Coastal shall file an original of each executed Investment Advisory Contract in its books and records (Rule 204-2(a)(10)). Coastal also shall maintain, in its books and records, documents indicating that clients received bills, calculations of fees, and other information regarding Coastal's advisory fee.

# 5 INVESTMENT MANAGEMENT

## Introduction

[Investment Company Act of 1940 Rule 3a-4; Investment Advisers Act of 1940 Rule 206(4)-6; ERISA]

Investment advisers are fiduciaries that owe their clients a number of duties. See SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180 (1963). In the view of the SEC, an investment adviser should continuously occupy an impartial and disinterested position with respect to the management of client accounts. In addition, an adviser may only recommend investments that are suitable to a client, based on the client's particular circumstances and needs.

On a number of occasions, the SEC staff has reminded the investment advisory industry about the importance of properly investing clients' cash. An investment adviser can be found negligent or to have breached its fiduciary duty to a client if it causes the client to maintain excessive amounts of cash in his or her account.

Some investment advisers manage accounts of employee benefit plans, including:

- Pension plans;
- 401(k) plans;
- Profit-sharing plans; and
- Welfare benefit plans.

ERISA protects participants in employee benefit plans, especially from unscrupulous acts by the plan's trustee, administrator or investment adviser. The U.S. Department of Labor administers and enforces ERISA. Managers of ERISA accounts are subject to a higher fiduciary duty than managers of ordinary accounts and must comply with a number of rules adopted by the Department of Labor under ERISA.

Valuation of client assets is a key part of investment management services. Advisory firms typically use market quotations to value client portfolio securities if market quotations are readily available. Otherwise, securities and assets in a client's portfolio are valued at their "fair value," which is determined in good faith by the advisory firm.

Rule 206(4)-6 under the Investment Advisers Act of 1940 and certain state laws require an investment adviser, if it exercises voting authority over client proxies, to adopt policies and procedures reasonably designed to ensure that the investment adviser votes proxies in the best interests of clients, to disclose to clients information about those policies and procedures, and to disclose to clients how they may obtain information on how the adviser has voted their proxies.

Investment advisers that manage a number of accounts in a similar manner must be concerned that they do not create an "inadvertent investment company." Rule 3a-4 under the Investment Company Act of 1940 exempts a group of separate accounts that consist of similar portfolio securities from the definition of investment company (and thus from registration as such with the SEC) if the conditions of the Rule are met.

## 5.1 Compliance Reference Chart

[Investment Company Act of 1940 Rule 3a-4; Investment Advisers Act of 1940 Rule 206(4)-6; Investment Advisers Act of 1940 Section 206; ERISA]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Adviser Representative and Designated Supervisor</li></ul>
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<b>Operational Areas</b>	<ul style="list-style-type: none"> <li>• Investments</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Each time a Coastal Adviser Representative makes an investment recommendation</li> </ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"> <li>• Section 206 of the Investment Advisers Act of 1940</li> <li>• Rule 206(4)-6 under the Investment Advisers Act of 1940</li> <li>• Rule 3a-4 under the Investment Company Act of 1940</li> <li>• ERISA</li> </ul>
<b>Records</b>	<ul style="list-style-type: none"> <li>• Investment Research Related Records</li> <li>• Proxy Voting Related Records</li> <li>• Portfolio Security Valuation Related Records</li> <li>• Discretionary Authority Records</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Procedures annually.</li> </ul>

## 5.2 Policy

It is Coastal's policy to recommend to a client the purchase or sale of a security only if Coastal has reasonable grounds for believing that the recommendation is suitable for such client, to value client securities accurately, and to ensure that clients are aware of their right to vote proxies of securities held in their account, and where clients have delegated proxy voting to Coastal, to vote such proxies in a manner that is consistent with the interests of the clients.

## 5.3 Procedures

### 5.3.1 Fiduciary Duties Owed to Clients

Coastal owes a fiduciary duty to each of its clients. This duty is akin to the "prudent man rule" applicable to a trustee, exercising that degree of care with respect to the client's affairs that a "prudent man" would observe with respect to his own. This duty is particularly evident where the client has given discretionary authority over his or her account to Coastal. Consistent with this fiduciary duty, Coastal must eliminate or at least expose all conflicts of interest that might incline it consciously or unconsciously to render advice that is not disinterested. See *SEC v. Capital Gains Research Bureau*, 375 U.S. 18 (1963).

In order to carry out their general fiduciary duties to clients, Coastal and each Adviser Representative shall have the following specific duties:

1. avoid all conflicts of interest and potential conflicts of interest, and, if unavoidable, fully disclose the material facts of each and every conflict of interest and mitigate material conflicts of interest;
2. exercise the utmost and undivided loyalty to the client;
3. act prudently with the care, skill and judgment of a professional;
4. recommend suitable investments to clients including having a reasonable basis for advice in the best interest of the client;
5. obtain best execution on client trades;
6. obtain client consent prior to making principal trades with a client;

7. never engage in scalping (*i.e.*, engaging in a trade of a security in the adviser's account in advance of a client's trade in the same security in a manner that is a disadvantage to the client);
8. treat each client fairly and perform services for them, including trading their accounts, in an equitable manner;
9. communicate clearly and accurately;
10. provide accurate information about the total fees and expenses paid by the client;
11. receive only reasonable gifts, entertainment and other benefits from service providers, including broker-dealers executing client trades;
12. maintain a high level of competence regarding investment management knowledge and skills; and
13. ensure that clients are offered or have access to all necessary investment products, funds and other investment management services that can be tailored to the needs of the client.

### **5.3.2 Fraud**

Neither Coastal nor any of its Investment Adviser Representatives shall:

- employ any device, scheme, or artifice to defraud any client or prospective client;
- engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client;
- deviate from the policies and procedures of this Compliance Manual when acting as a principal or agent in connection with a client securities trade; or
- engage in any act, practice, or course of business which is fraudulent, deceptive, or manipulative.

### **5.3.3 Suitability**

An Adviser Representative, prior to making any recommendation to a client, must ensure that the recommendation is suitable for the client.

#### **5.3.3.1 Suitability Determination**

Each Adviser Representative, prior to recommending a trade to a client, must:

- Review information about the client obtained pursuant to the procedures in the "New Clients & Anti-Money Laundering" chapter and updated pursuant to the procedures in the "Existing Client & Privacy" chapter;
- Take adequate steps to obtain additional information about such client's financial situation, securities holdings, risk tolerance and other information necessary to make a suitable recommendation, including the particular client's:
  - purpose for opening the account;
  - marital status;
  - occupation;
  - anticipated account activity;
  - annual income;
  - source of wealth (*i.e.*, activity that has generated net worth);
  - estimated net worth;
  - investment experience;
  - risk tolerance;
  - investment time horizon;
  - liquidity needs;
  - existing holdings; and
  - source of funds and means of transfer of funds to open the account.

- Thoroughly understand the security or financial product being recommended by reviewing and considering information and data from reliable sources supporting the recommendation;
- Consider the risk-reducing principal of diversification when selecting types and sectors of investments;
- Make an investment recommendation only if it advances the specific objectives and financial situation of the client; and

### 5.3.3.2 Mutual Fund Recommendations

Before making an investment recommendation involving mutual fund shares, an Adviser Representative must:

- Ascertain whether the mutual fund offers more than one class of shares (a multiple class fund);
- Review the sales charges and 12b-1 or other fees of each class of shares of the multiple class fund;
- Determine which class(es) of shares the client is eligible to purchase;
- Consider the length of time the client expects to hold the mutual fund shares;
- Select or advise the client to select the class of shares with the lowest sales charge or asset-based fee (or mix of the two) based upon the expected time the client is expected to hold the shares;
- When making this decision or recommendation, not consider the compensation a registered representative of Coastal or a broker-dealer affiliate of Coastal may earn upon the mutual fund shares transaction.
- confirm that the investment will not result in the client owning 5% or more of the voting securities of the mutual fund or, if the client is a private fund, owning 3% or more of the voting securities of the mutual fund. (If such thresholds are exceeded, Coastal shall review relevant provisions of the Investment Company Act of 1940 and, if necessary, consult with outside counsel regarding any issues raised by that Act);
- if the Advisor Representative is using an automated rebalancing service, that when executed cause clients to incur short-term redemption fees charged by mutual funds, the advisor representative shall consider whether such a process cause the clients to pay redemption or other fees.

In most cases, an institutional share class or advisory share class is available to the client. Institutional shares and advisory share classes are considered best execution for the client. For other share classes, in order to confirm that a share class is the least expensive share class, or to determine whether there exists a less expensive share class than the share class contemplated to be purchased, the Adviser may use the Wells Fargo Advisory Equivalent Tool available on InfoMax on Smart Station. When purchasing a share class other than an institutional or advisory share class, the adviser must document the reason for purchasing a share class other than the least expensive share class. Acceptable reasons include unavailability of the share class from the fund family, unavailability of the fund class from the custodian, or expenses to exchange existing positions to a cheaper share class are not economically feasible for the client.

### 5.3.3.3 ETF Recommendations

Before making an investment recommendation involving exchange-traded fund (ETF) shares, an Adviser Representative must:

- Understand ETFs in general and the characteristics of the particular ETF that the client is considering investing in;
- Review the prospectus and Product Description of an ETF prior to recommending that ETF to a client;
- Review relevant information on the ETF issuer's or sponsor's web site;
- Explain the tax consequences of owning and selling ETF shares (including the fact that if a client sells ETF shares within one year of purchase, any gain will be taxed as ordinary income);
- Compare and contrast the ETF investment with an investment in a similar index mutual fund (including a comparison of the different tax consequences);
- Find out whether there is a premium or discount of the bid/ask price of the ETF shares and the net asset value per share of the ETF;

- Prior to placing a trade, examine the spread between the bid and ask price of the ETF shares;
- Consider the commissions charged to effect the ETF share trade; and
- Confirm that the investment will not result in the client owning 5% or more of the voting securities of the ETF or, if the client is a private fund, owning 3% or more of the voting securities of the ETF. (If such thresholds are exceeded, Coastal shall review relevant provisions of the Investment Company Act of 1940 and any exemptive orders issued to the ETF, and, if necessary, consult with outside counsel regarding any issues raised by that Act).

An **inverse ETF** is an ETF that is designed to perform as the inverse of whatever index or benchmark it is designed to track. These ETFs work by using short selling, trading derivatives such as futures contracts, and other investment techniques.

A **leveraged ETF** is an ETF that is designed to amplify by factors of 2 or more the returns of whatever index or benchmark it is designed to track. These ETFs work by using swaps, trading derivatives such as futures contracts, and other leveraged investment techniques.

**"Compounding"** may impact the performance of inverse and leveraged ETFs. Most of these ETFs are designed to achieve their performance on a daily basis. Typically, the ETF resets daily. This means that the ETF is trying to achieve its objective each day (e.g., rising 1% if the index declines 1% that day) and not a longer period (e.g., rising 5% if the index declines 5% over a month). On the second day, the ETF is trying to track the performance over the second day, not the two-day period. This causes a compounding effect, meaning that there will be a strong likelihood that while the ETF may closely match what the index did each day (e.g., day 1, day 2, etc.), it will not match what the index did for the entire longer period (30 days).

Prior to making an investment recommendation involving inverse or leveraged ETF shares, an Adviser Representative must:

- Consider the factors above applicable to all ETFs;
- Understand and explain to the client how the inverse or leveraged ETF works, including the effects of compounding on the performance of the ETF over longer periods of time;
- Ascertain how long the client intends to hold the inverse or leveraged ETF and make sure the client fully understands the compounding effect if the client plans to hold the ETF more than a few days; and
- Consider recommending inverse and leveraged ETFs only to institutional or highly experienced investors.

#### 5.3.3.4 Variable Annuities

Before making an investment recommendation involving a variable annuity, an Adviser Representative must:

- Inform the client of the general terms of the various features of the variable annuity;
- Reasonably believe that the client will benefit from the features of the variable annuity; and
- Be sure that the contract riders and product enhancements, and the underlying subaccounts to which premium payments are allocated, are appropriate for the client.

Before making an investment recommendation involving an exchange of a variable annuity, an Adviser Representative must:

- Consider whether the client would incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits, or be subject to increased fees;
- Be satisfied that the client would benefit from product enhancements and improvements; and
- Factor in whether the client has had another variable annuity exchange within the preceding 36 months.

No variable annuity may be sold by Coastal or any of its employees unless such entity or persons are properly registered and licensed under federal, self-regulatory and state securities laws.

### 5.3.3.5 Suitability Monitoring

Coastal may periodically contact clients regarding their investment objectives, financial status, and risk tolerance. Adviser Representatives maintain current information about the client's financial status and investment objectives in order for such persons to make suitability determinations. Information is maintained current by the Adviser Representative's annual review.

Accounts are reviewed during branch inspections on a sampled basis, and also reviewed by supervisors on a risk-based alert review system in Smart Station. If it appears that a client account is not being managed to the stated objectives and strategy, deviates significantly from any applicable model portfolios, or is the subject of unusual or excessive transactions, the Designated Supervisor will bring this matter to the attention of the Adviser Representative. Where there appears that the Adviser Representative offers no adequate explanation, the Designated Supervisor will further investigate the matter, including contacting the client if necessary, and determine whether further action is necessary, including corrective transaction(s), re-assigning the account or disciplinary action. If the investigation reveals any changes in the client's objectives or investment strategy, the client documentation will be updated.

### 5.3.4 SMA Programs

Investment advisers from time to time may participate in separately managed account programs (SMA Programs) sponsored by broker-dealers (Sponsors). Typically, an investment adviser will participate in a SMA Program in one of two ways:

- As an investment manager (Investment Manager) that manages a model portfolio option for SMA Program customers. In this role, the Investment Manager has little or no contact with the SMA Program customers but selects the securities or mutual funds for the customer; or
- As an adviser participant (Adviser Participant) that is the direct investment adviser for the SMA Program customer in terms of selecting the SMA Program in the first place and monitoring the customer's investments through the program, but has no direct role in selecting the investment managers or portfolio securities or mutual funds that the customer will invest in.

These procedures do not govern arrangements where Coastal is also a Sponsor of a SMA Program.

If Coastal participates in a SMA Program, it will follow the procedures below either as a Manager or Adviser Participant or both.

#### 5.3.4.1 Manager

*Due Diligence:* Prior to joining a SMA Program as a Manager, Coastal will request, review and analyze the following information or documents about the Sponsor:

- Form BD and recent FOCUS reports;
- Disciplinary history of the Sponsor and registered representatives;
- Most recent deficiency letters from the SEC and FINRA;
- Rule 3130 reports;
- Anti-money laundering program;
- Due diligence questionnaire prepared by Coastal and completed by the Sponsor;

- Information about the Sponsor's trading system and brokerage (including soft dollar) practices;
- Information about the investment strategies;
- Compliance manual, including code of ethics and business continuity plans;
- Customer questionnaires;
- Customer complaint files; and
- Trading error reports.

*Contracts:* participation by Coastal as a Manger in the SMA Program will be governed by a written contract between Coastal and Sponsor that includes provisions:

- requiring the Sponsor to notify Coastal about material compliance events that occur at the Sponsor; and
- delineating responsibilities between the Sponsor, Adviser Participants and Coastal (as Manager).

*Reports:* Sponsor will provide Coastal, no less frequently than quarterly, reports about compliance issues, including the results of any recent exams performed by regulatory agencies, brokerage and other material matters related to the operation of the SMA Program.

### **5.3.4.2 Adviser Participant**

[Investment Advisers Act of 1940 Rule 206(4)-7]

*Sponsor Due Diligence:* Prior to joining a SMA Program as an Adviser Participant, Coastal will request, review and analyze certain information or documents about the Sponsor which may include:

- Form ADV Parts 1 and 2;
- Disciplinary history of the Sponsor and registered representatives;
- Information about the Sponsor's trading system and brokerage (including soft dollar) practices;
- Information about the investment strategies;

*Manager Due Diligence:* Prior to joining a SMA Program as an Adviser Participant, Coastal will request, review and analyze certain information or documents about each Manager which may include (the information below may be provided by the Sponsor):

- Form ADV;
- Disciplinary history of the Managers and their investment adviser representatives;
- Most recent deficiency letter from the SEC;
- Rule 206(4)-7 reports;
- Due diligence questionnaire prepared by the Sponsor and completed by the Managers; and
- Analytical and other research information about the Manager's investment style and performance.

*Reports:* For Wells Fargo Advisors platform programs, Coastal will obtain and review, no less frequently than annually, Research Alerts and Updates compiled by Wells Fargo Investment Institute which describe performance and other analytical information about the Managers and investment strategies, and other material matters related to the operation of the SMA Program. Third Party Managers not on the Wells Fargo Advisors platform which are utilized by Coastal Advisors during any given year will be required to complete the Annual Sub-Adviser/Third-Party Money Manager Due Diligence Questionnaire.

## **5.3.5 Cash Management**

### **5.3.5.1 Payments**

Coastal will direct clients to pay for securities or other investments by making payments to the appropriate financial institution. Coastal will not accept any checks made out to Coastal as a form of payment for securities or other investments.

### **5.3.5.2 Disbursements**

Coastal will not accept any cash disbursements made by the broker-dealer or other financial institution maintaining the client accounts ("Broker-Dealer") on behalf of Coastal clients. Coastal will direct the Broker-Dealer to make cash disbursements directly to clients.

### **5.3.5.3 Custody Arrangements**

The Chief Compliance Officer periodically will inquire about the check processing and wire transfer procedures of the Broker-Dealer that holds cash belonging to a client, including the average time for processing checks and wire transfers, the Broker-Dealer's financial institution's policy regarding rejected checks and wire transfers, and its disbursement policies.

Because the CCO of Coastal is also the CCO of its affiliate broker-dealer, Coastal Equities, Inc. ("CEI,"), this procedures of this section are unnecessary for accounts introduced through CEI.

### **5.3.5.4 Defensive Investments**

Coastal shall not cause excessive cash balances to be maintained for any client, unless such cash positions are part of a defensive investment strategy previously disclosed or explained to the client.

## **5.3.6 Conflicts of Interest**

The following sections describe procedures designed to address conflicts of interests.

### **5.3.6.1 Definition**

A conflict of interest is any activity or relationship in which Coastal's interests compete with the interests of its clients:

- Self-interest is often an element in the conflict, in which the self-interest could clash with the client's interest
- Conflicts may involve divided loyalty and self-dealing

### **5.3.6.2 Identify Conflicts of Interest**

Conflicts are inherent in the investment advisory business. Coastal shall identify conflicts of interest that arise from time to time and address them.

#### **5.3.6.2.1 Possible Areas where Conflicts of Interest Arise**

- Affiliated company arrangements and transactions
- Agency cross and cross trades
- Allocation of costs and expenses between Coastal and clients
- Allocation of trades, especially between client accounts and affiliated accounts or between two accounts with different advisory fees
- Brokerage placement, especially placement with affiliated broker-dealers
- Fee differentials
- Gifts and entertainment
- Multiple layers of fees
- Outside business activities
- Performance-based fees
- Personal trading
- Proxy voting, including the selection of proxy voting guidelines
- Side-by-side management of accounts
- Soft dollar practices
- Third-party relationships ( e.g., service providers)
- Trade errors

#### **5.3.6.2.2 Steps to Identify Conflicts of Interest**

- Testing
- Interviewing key personnel
- Reviewing financials
- Reviewing employee e-mails

After identifying conflicts, Coastal shall:

- Assess the nature and severity of the conflicts;
- Take steps to eliminate, reduce, monitor or otherwise manage the conflicts;
- Periodically assess the effectiveness of its conflicts management process; and
- Ensure conflicts are properly disclosed to clients and where necessary obtain client consent to proceed with the activities that create the conflict.

#### **5.3.6.3 Addressing Conflicts of Interest**

[Investment Advisers Act of 1940 Section 206(3); Investment Advisers Act of 1940 Rule 206(3)-2 and 206(4)-3]

Coastal shall consider any and all of the following actions designed to eliminate, mitigate or otherwise address conflicts:

- Limit conflicts
- Assess disclosure requirements, including how and where to make such disclosure (Form ADV, advisory agreement or direct client mailing) and when to make such disclosure (i.e., in advance or after the event)
- Assess consent requirements
- Monitor conflicts
- Mandated regulatory responses:
  - Principal trades (Advisers Act Section 206(3))
  - Agency and cross trades (Advisers Act Section 206(3) and Rule 206(3)-2)
  - Cash referral arrangements (Advisers Act Rule 206(4)-3)



### 5.3.6.4 Conflicts of Interest that Arise in Connection with Investment Recommendations

From time to time, an Adviser Representative of Coastal may have a conflict of interest when making an investment recommendation to a client, including any benefits he or she, or Coastal, receives from a third party. When a particular investment recommendation creates a conflict of interest that is not previously disclosed in Form ADV II, the Disclosure Brochure, an Adviser Representative will:

- fully disclose the nature and extent of his or her interest prior to the transaction, including any direct or indirect compensation the Adviser Representative or Coastal receives in connection with the transaction; and
- make the recommendation only if he or she has a reasonable belief that the entry of the client into the transaction is in the client's best interest.

### 5.3.7 ERISA

If the firm has accepted a retirement plan as a customer, the Chief Compliance Officer will determine under what circumstances Coastal will be a "fiduciary" to a retirement plan, which would subject Coastal to regulation under ERISA.

Coastal potentially may become a "fiduciary" for ERISA purposes with respect to a client that is a retirement plan ("Plan") if:

- Coastal directly manages or sub-advises the retirement plan; or
- Coastal directly manages or sub-advises an investment vehicle (e.g., a hedge fund) in which the retirement plan invests.

If a client that is a Plan invests in the interests of any investment vehicle that is managed by Coastal (e.g., a hedge fund), then that investment vehicle will be deemed to hold "Plan Assets," unless:

- the interest is a "publicly-offered security;"
- the interest was issued by an investment company registered under the Investment Company Act of 1940;
- the entity is an "operating company" (which includes a venture capital operating company and a real estate operating company);
- equity participation in the Plan investors is not "significant;" or
- the interest is a debt instrument.

#### 5.3.7.1 Providing Advice as an ERISA Fiduciary

If in fact Coastal is a fiduciary, the advisor, prior to effecting trades for the ERISA account, will review the ERISA plan instrument, the plan's trust agreement, and Coastal's agreement with respect to the plan to:

- Identify who is responsible for administering the plan and who has other responsibilities;
- Verify that Coastal has been properly appointed to manage the plan's assets; and
- Identify all stated objectives and restrictions governing the plan account.

Unless advice is obtained from inside or outside counsel with ERISA experience, Coastal will not act in a principal capacity when effecting trades in ERISA accounts, and, if Coastal has discretionary authority, it will not engage in agency cross transactions with respect to ERISA accounts.

The Impartial Conduct Standards generally require that advisers subject to ERISA:

- provide investment advice that is in the client's best interest,
- receive no more than reasonable compensation, and
- avoid misleading statements to investors about recommended transactions.

When providing investment advice as an ERISA Fiduciary, Coastal will provide such advice and recommendations in a manner that meets the Impartial Conduct Standards.

Advice is in the "best interest" of the retirement investor if it reflects the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the retirement investor, without regard to the financial or other interest of the adviser, or any affiliate, related entity or other party.

When providing such advice, Coastal will not receive compensation that is in excess of reasonable compensation (within the meaning of ERISA section 408(b)(2) and Code section 4975(d)(2)) as a result of the recommendation.

Furthermore, when providing such advice, Coastal will not make materially misleading statements to the retirement client about the recommended transaction, fees and compensation, material conflicts of interests and any other matters relevant to the retirement client's investment decisions.

### **5.3.7.2 Fiduciary Principals**

If Coastal is a fiduciary for purposes of ERISA as determined above, it will be subject to the fiduciary responsibility provisions of Title I of ERISA and, accordingly, will:

- Act solely in the interest of, and for the exclusive benefit of the plan client and plan client assets;
- Perform all duties with the level of care, skill, and diligence that a prudent expert must use when conducting similar business. To act prudently, Coastal will (i) consider all available alternatives; (ii) evaluate all the facts on each investment and investment strategy; (iii) consider how the investment fits into the overall goals of each plan client; and (iv) obtain the best value for all services supplied to the plan client;
- Ensure that assets of each plan client are sufficiently diversified; and
- Act in accordance with the applicable plan documents.

### **5.3.7.3 Plan Documents**

With respect to each plan client, Coastal will review, familiarize itself with, and follow the specific guidelines, limitations and restrictions under which the plan operates. Coastal shall invest plan client assets only if such investment is permitted by, and consistent with, the plan documents that govern the plan client.

### **5.3.7.4 Investments**

For each plan client, Coastal will be a fiduciary and the investments made by Coastal on behalf of such client will be subject to general fiduciary principles.

### 5.3.7.5 Prohibited Transactions

Coastal, with respect to Plan clients, will not engage in any prohibited transactions unless an exemption is available. The two categories of prohibited transactions are: (1) transactions with "parties-in-interests;" and (2) transactions with fiduciaries.

A fiduciary of a plan may not cause the plan to engage in a transaction if the fiduciary knows or should know the transaction constitutes a direct or indirect prohibited transaction under ERISA. A fiduciary that engages in a prohibited transaction is subject to an excise tax of 15% per year of the amount involved until the transaction is undone. If the transaction has not been undone within 90 days of the imposition of the 15% excise tax, the excise tax increases to 100% of the amount involved.

Coastal will not use its authority, control and responsibility to cause a Plan client to:

- pay an additional fee to itself or an affiliate to provide a service; and
- enter into a transaction involving Plan client assets whereby Coastal or an affiliate will receive compensation from a third party in connection with such transaction.

#### 5.3.7.5.1 Transactions with Parties-In-Interests

The following will be deemed "parties-in-interests" with respect to each Plan client:

- Coastal;
- Fiduciary, counsel or employee of the Plan;
- Person providing services to the Plan;
- Employers of participants investing in Plans that retain Coastal;
- Trustee(s) of each Plan that retain Coastal;
- Custodian of the Plan assets;
- Certain other service providers to the Plans;
- Employee organization (e.g., union) whose members are covered by the Plan;
- Spouse, ancestor, lineal descendant or spouse of a lineal descendant of any such persons listed herein;
- Corporation, partnership, trust or estate, 50% or more of which is owned directly or indirectly by such persons listed herein;
- Employee, officer, director or a 10% or more shareholder of a person described above; or
- 10% or more partner of a person described above (with the exception of Employee, officer, director or a 10% or more shareholder of a person described above).

#### 5.3.7.5.2 Prohibited Party-In-Interest Transactions

Coastal will not engage in any of the following transactions between or on behalf of an ERISA client with a party-in-interest:

- The sale, exchange, or leasing of any property between the ERISA client and a party-in-interest;
- The lending of money or other extension of credit by an ERISA client to a party-in-interest;
- The providing or purchasing of goods, services, or facilities between an ERISA client and a party-in-interest;
- The transfer of plan assets to a party-in-interest or the use of plan assets for the benefit of a party-in-interest;
- The acquisition by the ERISA client of securities issued by the employer of participants of the plan investing in the ERISA client; or
- The acquisition of real property by the employer of participants of the plan investing in the ERISA client.

### 5.3.7.5.3 Transactions with Fiduciaries

Coastal will not engage in any of the following transactions related to a plan client:

- Self-dealing, which would occur if Coastal used the plan client assets for its own benefit;
- A transaction in which Coastal's interests conflict with those of the plan client; and
- A transaction in which Coastal receives a kick-back in connection with the plan client transaction.

### 5.3.7.5.4 Prohibited Self-Dealing

Coastal, with respect to a Plan client, will not:

- Deal with the income or assets of the Plan client in its own interest or for its account;
- Act in any transaction involving the Plan client on behalf of a party (or representative of a party) whose interests are adverse to the interests of the Plan client; or
- Receive any consideration for its own personal account from any party dealing with the Plan client in connection with the transaction involving the income or assets of the Plan client.

Accordingly, Coastal shall not:

- Enter into a principal transaction with a Plan client;
- Execute Plan client transactions for a fee or commission through an affiliated broker-dealer (but see *Affiliated Broker-Dealer Exemption* section of this chapter of this Manual);
- Cause a Plan client asset to generate soft dollar credits that may be used for the benefit of Coastal, including soft dollars that may benefit other clients of Coastal (unless otherwise permitted by Section 28(e) under the Securities Exchange Act of 1934); or
- Cause a Plan client to enter into a cross trade ( e.g., rebalancing transaction between Plan clients managed pursuant to the same investment objective) unless Coastal causes each Plan client to effect such transactions through separate brokers.

### 5.3.7.6 Exemptions

#### 5.3.7.6.1 Necessary Services Exemption

If Coastal is a party-in-interest, it may contract for or make reasonable arrangements with the Plan client for services necessary for the establishment or operation of the Plan client, including investment management services, provided these guidelines are followed:

- **Necessary Services:** A particular service is necessary for establishing or operating a Plan client provided the service is appropriate and helpful to the Plan client obtaining the service in carrying out the purposes for which the Plan client is established or maintained.
- **Reasonable Contract/Arrangement:** A contract or arrangement is reasonable only if it permits termination by the Plan client without penalty to the Plan client on reasonably short notice. A contract or arrangement will not be reasonable if the Plan client is locked into the arrangement. The service provider, however, may be compensated for loss caused by an early termination of the contract or arrangement. Generally, 60 to 90 days notice is considered reasonably short notice.
- **Adequate Consideration:** Adequate consideration depends on the facts and circumstances of each case. Adequate consideration means:
  - In the case of a security for which there is a generally recognized market, (i) the price of the security prevailing on a national securities exchange, taking into account factors such as the

- size of the transaction and the marketability of the security; and (ii) if the security is not traded on a national securities exchange, a price not less favorable to the Plan client than the offering price for the security as established by the current bid and asked prices quoted by persons independent of the issuer and the party in interest, taking into account factors such as the size of the transaction and the marketability of the security; and
- In the case of an asset other than a security for which there is a generally recognized market, the fair market value of the asset as determined in good faith by Coastal in accordance with regulations promulgated by the Department of Labor.

Coastal shall provide disclosure about the services it provides in either a disclosure guide that is modeled after the Department of Labor's "Sample Guide to Initial Disclosures," or in its Form ADV and contract for advisory services, or both.

#### **5.3.7.6.2 QPAM Exemption**

If Coastal meets the definition of "qualified professional asset manager" (QPAM), it may be able to enter into, on behalf of the Plan client, certain prohibited transactions. These exemptions are set forth in PTCE 84-14.

#### **5.3.7.6.3 QPAM Definition**

Coastal will be a QPAM if:

- It is a SEC-registered investment adviser;
- It has total non-proprietary client assets under management in excess of \$85,000,000;
- It has shareholders' or partners' equity in excess of \$1,000,000, or all of its liabilities are paid, including liability from breach of fiduciary duty guaranteed by person controlling, controlled by, or common control with the QPAM (if that person has shareholders' or partners' equity in excess of \$1,000,000, a bank, S&L or insurance company, or a broker-dealer registered with the SEC with a net worth in excess of \$1,000,000);
- It acknowledges in a written management agreement that it is a fiduciary to the Plan client; and
- None of its affiliates and none of its 5% or more owners within the last 10 years have been convicted of certain enumerated felonies or released from prison in connection therewith.

#### **5.3.7.6.4 QPAM Transactions**

Coastal, if it qualifies as a QPAM, may enter into certain prohibited transactions on behalf of its Plan clients with a party-in-interest of the Plan client, provided:

- The terms of the transaction are negotiated on behalf of the Plan client by the QPAM and the QPAM makes the decision on behalf of the Plan client to enter into the transaction;
- The transaction is not part of an agreement, arrangement or understanding designed to benefit a party-in-interest;
- The terms of the transaction are at least as favorable to the Plan client as the terms generally available in an arm's length transaction between unrelated parties (at the time of the transaction or any subsequent renewal); and
- Neither the QPAM nor an affiliate has been convicted or released from imprisonment as a result of crimes specified in the exemption within ten years preceding the transaction.

The following are not eligible QPAM Transactions:

- borrowing money on behalf of the Plan client from a party-in-interest;

- acquiring securities on behalf of the Plan client from a party-in-interest; or
- engaging in swap transactions on behalf of the Plan client with a party-in-interest

and

it is a transaction with a party-in-interest or any of its affiliates that has the authority:

- to appoint or terminate the QPAM as a manager of the plan's assets used in transaction;
- with the QPAM or QPAM related entities; or
- with a party-in-interest with respect to any Plan client whose assets managed by the QPAM, when combined with the assets of other plans maintained by the employer or same organization and managed by the QPAM, represent more than 20% of the total client assets managed by the QPAM at the time of the transaction.

Prior to relying on the QPAM Exemption to enter into a transaction on behalf of a Plan client with a party-in-interest for the first time, Coastal will consult outside counsel with knowledge of, and experience with, giving advice on ERISA-related issues.

#### **5.3.7.6.5 Affiliated Broker-Dealer Exemption**

If Coastal is a party-in-interest and directs Plan client trades to an affiliated broker-dealer, it shall take steps to meet the conditions set forth in ERISA Prohibited Transaction Class Exemption 86-128. These conditions are:

- Coastal will not be the administrator or trustee of the Plan to which its client is a participant, nor will Coastal employees be covered by the Plan client;
- The Plan trustee or other fiduciary will authorize in writing brokerage services being directed to an affiliated broker-dealer of Coastal and such Plan trustee or fiduciary may not be affiliated with Coastal or the broker-dealer;
- The written authorization referred to herein will be terminable at will by the Plan client, provided the Plan client provides written notice to Coastal; and
- Coastal will provide the Plan trustee with the reports required by Prohibited Transaction Class Exemption 86-128.

#### **5.3.7.6.6 Trading Exemptions**

Coastal may rely on exemptions available from the prohibited transaction rules to engage in principal trades, cross trades and block trades, which are set forth in the "Trades" chapter of this Manual.

#### **5.3.7.6.7 Exception to the Prohibited Transaction Rule for Advisers Offering Investment Products to Plans**

Prior to Coastal providing investment advice to both Plan clients and Plan client participants who have the ability to self direct their Plan investments, Coastal and appropriate compliance personnel shall consult applicable Department of Labor rules and advisory opinions that govern, among other things, the fees and types of investment advice, including certain computerized models, that are permissible under such arrangements.

#### **5.3.7.6.8 Performance Fees**

After consulting applicable Department of Labor Advisory Opinions, Coastal may charge a performance fee or enter into some other incentive compensation arrangement with a Plan client provided:

- The decision to make the investment and to pay the performance fee is made by an independent plan fiduciary;
- The independent plan fiduciary is a sophisticated investor and represents that it fully understands the formula for calculating the performance fee and the fee risks associated with such an arrangement;
- The independent plan fiduciary can withdraw from the investment on reasonable short notice;
- The performance fee complies with Rule 205-3 under the Investment Advisers Act of 1940;
- The incentive compensation is based on annual performance, taking into account both realized and unrealized gains and losses, and termination of the investment net profit is determined through the termination date; and
- Investments are made only in securities for which independent market valuations are readily available, or securities are valued by a qualified party who is independent of Coastal and approved by the independent plan fiduciary.

### **5.3.7.7 ERISA Reporting**

With respect to plan clients to which Coastal provides investment management services, Coastal will comply or assist others, including plan sponsors, with complying with all applicable reporting obligations set forth in ERISA.

Each year, the plan sponsor and/or administrator will file an annual report with the U.S. Department of Labor and the IRS on Form 5500. Such reports shall include, among other information, the value of the assets of its plan clients at the beginning and end of the year and compensation earned directly and indirectly by Coastal in connection with the services it provided to the plan.

Coastal will use its best efforts to provide certain information, including information about its direct and indirect compensation received in its role as a service provider to the plan and plan participants, to the plan administrator so that the plan administrator is able to complete Schedule C of Form 5500. If Coastal provides a notice to plan participants containing certain information, the plan administrator may be able to file a simplified disclosure with the DOL and IRS. This may reduce the amount of information Coastal has to provide to the plan administrator.

### **5.3.7.8 Bonding**

The Chief Compliance Officer will check ERISA and applicable Department of Labor rules to see if its activities with respect to plan clients holding plan assets require Coastal to obtain a bond. If so, the Chief Compliance Officer will arrange for Coastal to obtain appropriate coverage. Generally, Coastal would need to be bonded against acts of fiduciary dishonesty in an amount equal to the lesser of:

- 10% of the Plan client assets handled; or
- \$500,000 (\$1,000,000 if the Plan client assets consist of "employer securities").

Each bond shall:

- Protect the Plan client from losses incurred by fraudulent or dishonest acts performed by Coastal officer or employee; and
- Have a corporate surety company that meets Department of Treasury regulations.

### **5.3.7.9 Rule 408(b) Filings**

Coastal will monitor whether it is a "covered service provider" under ERISA, a status if obtained will require it to make certain disclosures.

#### **5.3.7.9.1 Potential Accounts Subject to Rule 408(b) Filings**

The firm currently does not manage a hedge fund. In the event that the firm does so in the future, the CCO periodically will review the investors in the hedge funds that it manages to determine whether any are "covered plans." "Covered plans" include all ERISA-governed retirement plans other than SEP IRAs and SIMPLE IRAs including:

- 401(k) plans,
- ERISA-covered 403(b) plans,
- defined benefit pension plans, and
- non-participant directed profit sharing plans.

#### **5.3.7.9.2 Covered Service Provider**

The CCO will determine whether Coastal is a "covered service provider." Coastal will meet that definition if the following three conditions exist:

1. it has a contract or an arrangement with a covered plan;
2. it reasonably expects to receive \$1,000 or more in direct or indirect compensation under an arrangement involving the covered plan; and
3. it provides "covered services."

Covered services most relevant to registered advisers are:

- Services provided directly to a plan as a fiduciary under ERISA Section 3(21), which would generally include an investment adviser providing advisory services to a plan or participants in a plan under Section 3(21)(A)(ii);
- Services provided directly to a plan as an investment adviser registered under the Investment Advisers Act of 1940 or state law, which would include registered investment advisers providing services that might not constitute fiduciary services; and
- Consulting and investment advisory services if the investment adviser reasonably expects to receive "indirect compensation" (as defined in the regulation).

"Consulting" services are those that relate to the development or implementation of investment policies or objectives or the selection or monitoring of service providers or plan investments.

Coastal may very well likely fall within "covered service providers" under one or more the above categories because it:

- provides "direct" investment advice;
- is a fiduciary under ERISA; and
- is registered under the Advisers Act and provides services covered by that registration.

In addition, Coastal will be a covered service provider if it receives indirect compensation and provides such consulting services as:

- assisting with the development of a plan's investment policy;
- helping with the selection or monitoring of the recordkeeper; and
- providing information to assist a fiduciary in monitoring a plan's investments.

#### **5.3.7.9.3 Disclosure**

If Coastal is subject to Rule 408(b), it must provide the following disclosure in writing to covered plans:



- description of services to be provided;
- status of Coastal ( e.g., registered investment adviser, fiduciary or both);
- all direct compensation to be received (either in aggregate or by service);
- all indirect compensation to be received (describing services and payor);
- any related compensation if set on a transaction basis, or charged directly against a plan's investment and reflected in the net asset value of the investment;
- any termination compensation, including how any prepaid amounts will be calculated and rebated; and
- description of the manner in which it receives the fees ( e.g., billed or deducted).

If Coastal provides an investment product that holds plan assets, it will provide the following additional disclosures:

1. Description of any compensation that will be charged directly against the amount invested;
2. Description of any operating expenses ( e.g., expense ratio); and
3. Description of any other ongoing expenses.

Coastal may seek to comply with some or all of the disclosure obligation by providing Part 2A of its Form ADV and incorporating the Form by reference and by cross-referencing other disclosure documents made available to clients.

#### **5.3.7.9.4 Compensation**

Coastal must describe:

- the direct and indirect compensation to be received by it and its affiliates and sub-advisers. Direct compensation means "compensation" ( i.e., anything of monetary value, such as money, gifts, awards and trips, but excluding non-monetary items of \$250 or less received during the term of the contract or arrangement) that is received directly from a plan. Indirect compensation is "compensation" that is received from any source other than the plan, the plan sponsor, the covered service provider, an affiliate of the service provider or a subcontractor of the service provider;
- the manner of payment, e.g., whether it will bill the plan, deduct fees from plan accounts or reflect a charge against the plan investments; and
- any compensation Coastal reasonably expects to receive in connection with termination of the contract ( e.g., a surrender charge) and how prepaid amounts will be calculated and refunded upon termination of the contract ( e.g., if Coastal charges in advance for a particular period, e.g., quarterly).

#### **5.3.7.9.5 Changes in Information**

Coastal will disclose any material change to the required information as soon as practicable but in any case no later than 60 days from the date on which Coastal has knowledge of the change. Coastal may take additional time in extraordinary circumstances.

#### **5.3.7.9.6 Reporting**

Coastal will disclose, upon written request, any other information relating to compensation received in connection with the arrangement, if it is required for the investing plan to comply with the reporting and disclosure requirements of ERISA and the regulations, forms and schedules issued thereunder. Coastal will provide such information not later than 30 days after receipt of a written request from the responsible plan fiduciary or plan administrator unless the disclosure is precluded due to extraordinary circumstances beyond Coastal's control. In that case, it will disclose the information as soon as practicable.

### **5.3.7.9.7 Agreement**

In each agreement with a covered person, Coastal will describe the services it provides.

## **5.3.8 Valuation Procedures**

Coastal has adopted Valuation Procedures as the method to follow when pricing securities in a client's portfolio. Coastal is authorized to engage the services of one or more qualified independent pricing services or to delegate pricing to a broker-dealer or other financial institution that maintains a client's account to value such client's portfolio securities, as described herein.

Client portfolio securities for which market quotations are readily available are valued at current market value. Specific procedures for valuing certain securities for which market quotations are readily available are set forth herein, including procedures for valuing equity securities when market quotations are readily available, equity securities when market quotations are not readily available, fixed-income securities, foreign securities, foreign currencies and options and futures contracts.

Portfolio securities for which market quotations are not readily available are valued at fair value as determined by Coastal in accordance with the fair value methodology set forth herein.

Coastal may also have a valuation committee made up of certain firm personnel which shall oversee the valuation procedures, including fair valuing client portfolio securities when the need arises.

### **5.3.8.1 General Valuation Procedure**

Coastal has deemed it reasonable to rely upon the valuation of any and all assets by the custodian of record, transfer agent, or sponsor to the extent that such custodian, transfer agent, or sponsor provides statements or confirms in the ordinary course of business which provide a valuation of the security at issue. Should such statements or confirms be unavailable, or deemed unreliable by the CCO, the following procedures shall be followed.

### **5.3.8.2 Valuation of Equity Securities When Market Quotations are NOT Readily Available**

Equity securities owned by clients for which market quotations are not readily available (*e.g.*, equity securities that are not traded on exchanges and equity securities for which over-the-counter market quotations are not readily available) are to be valued at:

- the last quoted sales price (if adequate trading volume is present); or
- the last bid price (if adequate trading volume is not present).

### **5.3.8.3 Fixed-Income Securities**

Fixed-income securities are valued at prices supplied by an independent pricing source or by one of the pricing agents retained by Coastal based on broker or dealer supplied valuations or matrix pricing. Matrix pricing is a valuation method where reference is made to the value of other securities with similar characteristics, such as rating, interest rate and maturity.

#### **5.3.8.4 Foreign Equity Securities**

A foreign equity security shall be valued at its last sale price on such day on the foreign stock exchange on which the security is primarily traded, as recorded by such exchange, or if no sale is reported at that time, at the mean between the closing "bid" and "asked" prices on the day of determination. The value is next converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the time and day of determination.

#### **5.3.8.5 Foreign Currencies**

The value of foreign currencies shall be translated into U.S. dollars based on the foreign exchange (FX) rate in effect on the day and at the time when the assets of the client are valued. If no sale is reported at that time, the foreign currency shall be valued at the last bid price.

#### **5.3.8.6 Options and Futures Contracts**

Options and futures contracts listed for trading on an exchange or board of trade are valued at:

- The last quoted sales price or, in the absence of a sale;
- The last bid price.

Options not listed for trading on an exchange or board of trade for which over-the-counter market quotations are readily available shall be valued at the current bid price.

#### **5.3.8.7 Fair Value Determinations**

Coastal has adopted procedures that govern the valuing of client portfolio securities when Coastal is unable to value such securities pursuant to the other valuation methods contained in the Valuation Procedures.

##### **5.3.8.7.1 Determining When to Initially Fair Value**

Coastal shall value portfolio securities or instruments held by a client by making a "Fair Value Determination" in lieu of using the closing market price only under the following circumstances:

- portfolio instruments for which no price or value is available at the time the clients' assets are calculated on a particular day, including new portfolio instruments which no authorized pricing service has begun to price, portfolio instruments for which there is a temporary lapse in price provision by the regular source, and securities for which the primary market is closed and no other market price is available;
- illiquid portfolio instruments (when an instrument is not valued by an independent pricing source);
- Section 4(2) commercial paper (in the event it is not valued at amortized cost); and
- portfolio instruments for which the prices or values provided by the pricing services do not, in the judgment of Coastal, represent the current market value of the instrument.

##### **5.3.8.7.2 Determining How Long to Fair Value**

A determination by Coastal that a security held in a client's investment portfolio should be valued in a particular manner shall be effective for all subsequent calculations of the client's investment portfolio until such time as:

- the client no longer owns the security in question;
- in the judgment of Coastal, a fair value determination is no longer required for the security; or
- Coastal determines to modify its prior determination with respect to the security.

#### 5.3.8.7.3 Determining to No Longer Fair Value

In the event the fair value determination is no longer required for a security that previously has been fair valued by Coastal, Coastal shall inform all relevant persons (including, for example, the financial institution that maintains client accounts), document the reason for such determination and value the security under the other appropriate procedures in these Valuation Procedures.

#### 5.3.8.7.4 Fair Value Methodology

As a general principle, the fair value of a security is the amount that the client might reasonably expect to realize upon its current sale. There is no single standard for determining the fair value of a security.

To arrive at the appropriate method, Coastal should consider the following non-exclusive list of factors:

1. Specific Factors:
  - type of security;
  - the nature and pricing history (if any) of the security;
  - whether any dealer quotations for the security are available;
  - the extent to which the fair value to be determined for the security will result from the use of data or formula produced by third parties independent of Coastal;
  - financial statements;
  - cost at date of purchase;
  - size of holding;
  - for restricted securities, any discount from the market value of unrestricted securities of the same class from the same issuer at the time of purchase;
  - for restricted securities, existence of registration rights;
  - existence of merger proposals or tender offers or other types of "exit" strategies that could affect the value of the security;
  - volume and depth of public trading in similar securities of the issuer or similar issuers;
  - the liquidity or illiquidity of the market for the security;
  - the fundamental analytical data relating to the security; and
  - the nature and duration of restrictions on the disposition of the security.
2. Additional Factors:
  - nature of the cause of any halt in trading;
  - expectation of additional news about the issuer;
  - possible valuation methodologies that could be used to determine the fair value of the security;
  - expectation of court action, market activity or government intervention affecting the value of the issuer and its securities;
  - ability to quantify any "significant event" affecting the issuer based upon past experience and other market and industry factors/information available;
  - conventional wisdom regarding the long-term outlook of the issuer;
  - value of other financial instruments, including derivative securities, traded on other markets or among dealers;
  - trading volumes on markets, exchanges, or among dealers;
  - values of baskets of securities traded on other markets, exchanges, or among dealers;
  - changes in interest rates;
  - observations from financial institutions;
  - government (domestic or foreign) actions or pronouncements;
  - an evaluation of the forces which influence the market in which the security is purchased or sold; and

- other news events.
- 3. With respect to securities traded on foreign markets:
  - value of foreign securities traded on other foreign markets;
  - ADR trading;
  - closed-end fund trading;
  - foreign currency exchange activity; and
  - trading prices of financial products that are tied to baskets of foreign securities.

After applying these factors, Coastal shall employ the appropriate method to fair value the particular client portfolio securities, document the methodology and apply the methodology to calculate the fair value of the security.

#### **5.3.8.7.5 Stale-Priced Securities**

Stale-priced securities are securities where the market value has not changed for a period of one-week (5 business days). Stale priced securities will be reviewed by Coastal on a weekly basis and valued under the "Fair Value Determination" section of these procedures if the price does not appear to represent the current market price. In such case, Coastal will also review information received from each security's independent pricing service, if any, regarding its pricing and method of valuation.

#### **5.3.8.7.6 Single Broker Priced Securities**

In the case of securities where the current market value is provided by a quote from a single broker, and not an independent pricing service, Coastal will review the quote on a periodic basis. While such securities may be deemed to be priced at market value through these Procedures, Coastal will review such "single source" quotes for their on-going appropriateness in terms of valuation. If a security is determined by Coastal not to be priced at its fair value, Coastal will obtain a new source to provide the security's market value.

#### **5.3.8.7.7 Restricted Securities**

In determining the fair value of restricted securities, Coastal will obtain a valuation based upon the current bid for the restricted security from one or more independent dealers or other parties reasonably familiar with the facts and circumstances of the security (who should take into consideration all relevant factors as may be appropriate under the circumstances).

If Coastal is unable to obtain a current bid for a restricted security from an independent dealer or other independent party, Coastal shall determine the fair value of such security.

The factors Coastal may consider when valuing a restricted security include but are not limited to:

- the type of security;
- whether the security is a Rule 144A security;
- the cost at date of purchase;
- the discount from market value of unrestricted securities of the same class at the time of purchase and subsequent thereto;
- information as to any transactions or offers with respect to the security;
- the nature and duration of restrictions on disposition of the security and the existence of any registration rights;
- how the yield of the security compares to similar securities of companies of similar or equal creditworthiness;
- the level of recent trades of similar or comparable securities;
- the liquidity characteristic of the security;

- current market conditions;
- the market value of any securities into which the security is convertible or exchangeable; and
- other factors relevant to an analysis of whether an instrument is liquid.

#### 5.3.8.7.8 Review of Valuation Methodology

For each security that is subject to a fair value determination, the Chief Compliance Officer shall monitor the continuing appropriateness of the valuation methodology with respect to the security. If the Chief Compliance Officer concludes that the fair value methodology is no longer appropriate or finds an irregularity or issue regarding the valuation methodology presently used for a client's portfolio securities, he or she shall inform all relevant persons at Coastal who shall collectively determine the best course of action including to use a different fair value methodology or valuing the security based on available market prices or quotations.

#### 5.3.8.7.9 Fair Value Methodology Recordkeeping

For each client, Coastal shall maintain:

1. a list of all securities that have been valued in accordance with fair value determinations;
2. a list of all manually priced securities;
3. realized sales prices for securities valued by fair value determinations; and
4. other information as Coastal deems relevant.

#### 5.3.8.7.10 Fair Value Hierarchy

Coastal will establish and maintain a fair value hierarchy that prioritizes observable inputs used to determine the fair value of a client's portfolio securities. The three broad levels of fair value are:

- **Level One Inputs:** observable inputs including quoted prices in active markets for identical securities or other assets. These assets can be valued with certainty because they are liquid and have clear market prices.
- **Level Two Inputs:** observable inputs such as quoted prices for identical securities or other assets in markets that are not active where quoted prices are not available; these inputs are derived principally from or corroborated by observable market data. Level 2 inputs include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
  - Pricing models whose inputs are observable for substantially the full term of the asset or liability;
  - Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability; and
- **Level Three Inputs:** unobservable inputs including, for example, the reporting issuer's management estimates of the assumptions that market participants would use in pricing the security or other asset based on the best information available. These assets are illiquid and estimating their value requires inputs that are unobservable and reflect management assumptions.

#### 5.3.8.8 Independent Pricing Agents

Independent pricing agents compile and disseminate official closing prices and published bid/asked prices for exchange-traded securities. In selecting a pricing agent to provide such assistance, Coastal will consider:

- the inputs, methods, models, and assumptions used by the pricing agent to determine its evaluated prices;
- how changes in market conditions may affect these factors; and
- the quality of the evaluated prices provided.

Coastal may employ independent pricing agents to value securities in client portfolios. Independent pricing agents Coastal may employ include, but are not limited to:

- Bloomberg
- Reuters
- Interactive Data Corporation
- Muller Data Corporation
- Kenny Information Systems

Coastal may utilize independent market trade data sources ( e.g., TRACE) to assist the valuation of client portfolio securities.

### 5.3.8.9 Overriding Pricing Agents

Coastal periodically will cross-check pricing agent information and dealer quotes against information from alternative sources.

- In particular, prices derived through matrix pricing and analytical techniques should be checked; and
- Frequency of cross checks may vary depending on circumstances, but commonly ranges between bi-weekly and quarterly.

Coastal may override a price from a pricing agent, for example, when Coastal has information from a secondary pricing service or other source that suggests that the primary pricing agent's price may be off the mark. In such case:

- Coastal will question the pricing agent to see if it can provide an acceptable explanation for its price or will agree with Coastal and modify the price; and
- If the pricing agent's response is unacceptable, Coastal's valuation committee or other employees responsible for valuation may look to override the price.

### 5.3.9 Rule 144 Securities

[SEC Securities Act of 1933 Rule 144]

Whenever "restricted securities" are held in a client's account, the following procedures shall apply when those securities are being resold. Restricted securities are securities acquired in an unregistered, private sale from an issuer or from an affiliate of an issuer, including in connection with a transaction meeting the requirements of Rule 144 under the Securities Act of 1933 (the "Securities Act").

1. If an Adviser Representative determines it is in the best interest of a client to resell a restricted security, the Adviser Representative will determine whether the security may be resold under the Securities Act. If the security has been purchased within the last six months, the restricted security cannot be resold pursuant to Rule 144.
2. If the restricted security has been held for more than six months, the Adviser Representative must determine whether the issuer of the Rule 144 Security has been subject to the reporting requirements of the Securities Exchange Act of 1934 for at least 90 days prior thereto, and has filed all reports required to be filed thereunder during the 12 months preceding (or such shorter period that the issuer was required to file such reports). If not, the restricted security cannot be resold pursuant to Rule 144, unless such restricted security has been held for at least one year prior thereto.

3. The Adviser Representative will confirm that Coastal and none of its subsidiaries or other affiliates (collectively, the "Firm Entities") are not affiliates of the issuer of the restricted security ( e.g., a Firm Entity will be deemed an affiliate of the issuer if it owns 10% or more of such issuer's equity securities) to be resold pursuant to Rule 144. If any of Coastal Entities are affiliates of the issuer, then it will be necessary to comply with other provisions of Rule 144 in connection with such resale, including the volume limitation, manner of sale and the filing requirements of Rule 144, and the Adviser Representative must contact the Chief Compliance Officer prior to reselling the restricted security.
4. If all of the above conditions are met, the Adviser Representative will complete and sign an attestation and provide it to the Chief Compliance Officer on the day of the resale of the restricted security.

### **5.3.10 Proxy Voting Policies and Procedures**

Coastal recognizes that the act of managing assets of clients consisting of equity securities can include the voting of proxies related to such equity securities. Coastal's general policy is that it does not vote proxies or permit its adviser representatives to vote proxies. Branches may request approval from Compliance to vote proxies, and if granted approval, must retain Broadridge Services to so vote such proxies for that particular branch's clients only.

#### **5.3.10.1 Client Responsibility to Vote Proxies**

If Coastal receives proxies related to a client's securities and Coastal is not responsible for voting such proxies, Coastal shall make arrangements with the client's custodian or take such other steps to ensure that the client timely receives such proxies.

#### **5.3.10.2 Third Party Proxy Voting by Investment Managers**

In certain advisory programs sponsored by Wells Fargo Advisors, such as Masters, Allocation Advisors, DMA, Compass, and Private Advisor Network, clients may have authorized the third-party investment adviser to vote proxies on his or her behalf, as described in the Investment Advisory Agreement or by completing a Proxy Authorization form. In those instances, WFCS as Custodian will forward the proxy materials to the investment adviser. To the extent WFCS has contracted to do so, will provide proxy materials to third-party investment advisers who vote proxies on a client's behalf. Some investment managers delegate proxy voting to external proxy voting services. Clients may refer to the respective investment advisers' Form ADV for a full disclosure of its proxy voting policies and procedures. WFCS votes proxies for all other Advisory Program Accounts over which discretion is exercised, unless otherwise instructed by the client in writing.

#### **5.3.10.3 Retaining Third Party Proxy Advisory Firms**

Coastal shall retain a third-party company ("Third Party Proxy Advisory Firm") to provide it research or other assistance with voting client proxies and/or to vote client proxies only after the firm:

- Obtains and reviews the proxy voting policies and procedures of the Third Party Proxy Advisory Firm (or summaries of such policies and procedures), and finds them acceptable and in the best interests of its clients;
- Determines that the Third Party Proxy Advisory Firm has the capacity and competency to analyze proxy issues;
- Considers the following:
  - the adequacy and quality of the Third Party Proxy Advisory Firm's staffing, personnel, and technology;



- how the Third Party Proxy Advisory Firm incorporates appropriate input in formulating its methodologies and construction of issuer peer groups;
- where relevant, how the Third Party Proxy Advisory Firm, in constructing peer groups, takes into account the unique characteristics regarding the issuer, to the extent available, such as the issuer's size; its governance structure; its industry and any particular practices unique to that industry; its history; and its financial performance;
- the extent to which the Third Party Proxy Advisory Proxy Firm has adequately disclosed to the Firm its methodologies in formulating voting recommendations, such that the Firm can understand the factors underlying the Firm's voting recommendations;
- the nature of any third-party information sources that the Third Party Proxy Advisory Proxy Firm uses as a basis for its voting recommendations; and

how the Third Party Proxy Advisory Firm would expect to engage with issuers and third parties;

- Obtains sufficient information from the Third Party Proxy Advisory Firm initially and on an ongoing basis to conclude that the Third Party Proxy Advisory Firm is independent and can make recommendations in an impartial manner.

#### **5.3.10.4 Third Party Proxy Advisory Firm Voting**

[SEC Rule 204-2(c)(2)]

Coastal may delegate the power to vote proxies related to a client account to a particular Third Party Proxy Advisory Firm only (i) at the direction of a client; or (ii) if it has disclosed such delegation to the client in its investment advisory agreement with the client or Part 2A of Coastal's Form ADV. Where Coastal has delegated the power to vote proxies related to client accounts to a Third Party Proxy Advisory Firm, it shall ensure that:

- All proxies and ballots received by Coastal will be forwarded to Third Party Proxy Advisory Firm and then logged in upon receipt in the "Receipt of Proxy Voting Material" log;
- Third Party Proxy Advisory Firm will promptly vote proxies received in a manner consistent with the Proxy Voting Policies and Procedures that it has provided to Coastal and guidelines (if any) issued by client (or in the case of an employee benefit plan, the plan's trustee or other fiduciaries if such guidelines are consistent with ERISA);
- In accordance with SEC Rule 204-2(c)(2), as amended, Third Party Proxy Advisory Firm shall retain in the required proxy voting related documents for the respective clients;
- Third Party Proxy Advisory Firm will make reports available to Coastal containing records of votes cast and other relevant information; and
- Periodically, but no less than annually, Coastal will:
  - Verify that all annual proxies for the securities held in the client's account have been received;
  - Verify that each proxy received has been voted in a manner consistent with the Proxy Voting Policies and Procedures of the Third Party Proxy Advisory Firm and the guidelines (if any) issued by the client (or in the case of an employee benefit plan, the plan's trustee or other fiduciaries);
  - Review the files to verify that records of the voting of the proxies have been properly maintained; and
  - Prepare a written report for each client regarding compliance with the Third Party Proxy Advisory Firm's Proxy Voting Policies and Procedures.

#### **5.3.10.5 Proxy Voting Review**

The Firm periodically will review the votes cast for clients by testing whether the Third-Party Proxy Advisory Firm's casting of votes on behalf of clients is consistently following the Firm's voting policies and procedures including:

- sampling proxy votes that relate to proposals that may require more issuer-specific analysis (e.g., mergers and acquisition transactions, dissolutions, conversions, or consolidations); and
- sampling proxy votes to determine whether they were consistent with its voting policies and procedures and in its client's best interest.

### 5.3.11 Inadvertent Investment Company

[Investment Company Act of 1940 Rule 3a-4]

Investment advisers that manage a number of accounts in a similar manner should be concerned that they have not created an "inadvertent investment company." Rule 3a-4 under the Investment Company Act of 1940 provides a safe harbor for such advisers, provided its conditions are met. To ensure that Coastal may rely on Rule 3a-4, the Chief Compliance Officer will make sure that each of the conditions below is met.

- Each client's account will be managed in accordance with the:
  - client's financial situation,
  - the client's investment objectives, and
  - restrictions the client desires to impose;
- Before a client account is opened, Coastal, pursuant to the procedures in the "New Client & Anti-Money Laundering" chapter in the Compliance Manual, will obtain from the client information about:
  - the client's financial situation,
  - the client's investment objective(s), and
  - any investment restrictions the client desires to impose;
- At least annually, the Adviser Representative shall contact the client to see if there have been changes in (a) the client's financial situation, (b) the client's investment objective(s), and (c) any investment restrictions previously imposed by the client;
- At least quarterly, the custodian of the client's assets sends written notice with its statements to the client directing the client to contact Coastal if there has been any changes in (a) the client's financial situation, (b) the client's investment objective(s), and (c) any investment restrictions previously imposed by the client;
- The custodian of the client's accounts, in its brokerage statements, sends to each client:
  - contributions and withdrawals made by the client in the prior quarter;
  - fees and expenses charged to the client in the prior quarter; and
  - the value of the account at the beginning of the prior quarter and the end of the prior quarter;
- Each client will have the unilateral right to:
  - withdraw securities or cash from his or her account;
  - vote securities held in the account;
  - receive confirmation statements for security transactions; and
  - legally proceed against any issuer of a security held in an account without having to include other clients in such proceeding.

### 5.3.12 Sub-Advisers

Coastal may delegate some or all of its investment advisory functions over a particular client account or accounts to another investment adviser (called a sub-adviser). Prior to delegating advisory functions, Coastal will perform due diligence on the sub-adviser, enter into a sub-advisory contract with the sub-adviser, and supervise the advisory and other services provided by the sub-adviser.

#### 5.3.12.1 Sub-Advisory Contract

Prior to retaining a sub-adviser, Coastal will enter into a sub-advisory contract with the sub-adviser. With the advice of its inside or outside counsel, Coastal will decide whether the sub-advisory contract will be between (1)

Coastal and the sub-adviser; or (2) Coastal, the sub-adviser and the client. Inside or outside counsel will review any sub-advisory agreement prior to its execution and such contract will comply with the procedures set forth in the "Advisory Contract & Fees" chapter of this Compliance Manual.

### **5.3.12.2 Supervision**

Coastal will consider taking the following steps when supervising any sub-advisory relationship:

- Obtaining an annual (or more frequent) certification from the sub-adviser regarding the following:
  - Material compliance matters;
  - Material changes to sub-adviser's compliance procedures;
  - Copy or description of the sub-adviser's written annual compliance review;
  - Description and frequency of testing methods used in connection with the sub-adviser's compliance review;
  - Last date of regulatory inspection and written description of the results of the inspection;
  - Material changes in key investment management personnel;
  - Material changes in sub-adviser's investment management process;
  - Report on the extent to which sub-adviser is managing each client's assets consistent with the stated investment objective for the client's account;
  - Timely filing of 13F and 13G reports (if any);
  - Material changes to how brokers are selected and average commission rate;
  - Percentage of trades made for soft dollars (if any);
  - Proxy voting report; and
  - Copy of the sub-adviser's Brochure (Part 2A) and any applicable Brochure Supplements (Part 2B).
- Coordinate compliance efforts, including employee reporting of personal trades;
- Periodically meet with the investment management, senior management and compliance personnel of the sub-adviser to discuss the relationship, including compliance issues;
- Contact the sub-adviser immediately if Coastal detects any irregularities with respect to client accounts managed by the sub-adviser, and Coastal will investigate and follow up on the irregularities until it concludes that they do not raise compliance issues;
- Require the sub-adviser to immediately notify Coastal of any compliance violation involving or impacting clients of Coastal and any material compliance violation, irrespective of whether it impacts Coastal clients; and
- Require the sub-adviser to inform Coastal about any material changes to its business.

### **5.3.13 Hedge Funds**

From time to time, Coastal may invest client assets in hedge funds or other private investment vehicles. Prior to making such investments, Coastal will perform due diligence on the hedge fund adviser, carefully review the hedge fund's private placement memorandum, enter limited partnership or operating agreement with the hedge fund, and implement a system to monitor the hedge fund adviser and hedge fund investment.

#### **5.3.13.1 Limited Partnership/Operating Agreement**

Prior to investing client assets in a hedge fund, Coastal will have to complete, or assist the client in completing, a number of documents, including a questionnaire, subscription agreement and a limited partnership or operating agreement. With the advice of its inside or outside counsel, Coastal will carefully review such documents and, if necessary, negotiate terms of the documents or side agreements on behalf of its investing clients. Coastal will also explain to its clients all of their rights and limitations as hedge fund limited partners or members, including the length of time that must elapse before they can withdraw their investments.

### 5.3.13.2 Monitoring Hedge Fund Investments

Coastal will take the following steps when monitoring its clients' hedge fund investments:

- Obtaining an annual (or more frequent) certification from the hedge fund adviser regarding the following:
  - Material compliance matters;
  - Material changes to hedge fund adviser's compliance procedures;
  - Copy or description of the hedge fund adviser's written annual compliance review;
  - Description and frequency of testing methods used in connection with the hedge fund adviser's compliance review;
  - Material changes in key investment management personnel;
  - Material changes in the hedge fund adviser's investment management process;
  - Report on the extent to which hedge fund is being managed to its stated investment objective;
  - Deficiencies found by the hedge fund and hedge fund adviser's auditor(s);
  - Timely filing of 13F and 13G reports (if any);
  - Percentage of trades made for soft dollars (if any);
  - Five largest client relationships gained and lost during the relevant period;
  - Average commission rate;
  - Litigation and material client disputes; and
  - Proxy voting report.
- Coordinate with chief compliance officer of the hedge fund adviser;
- Periodically meet with, or call, the investment management, senior management and compliance personnel of the hedge fund adviser to discuss the relationship, including compliance issues;
- Contact the hedge fund adviser immediately if Coastal detects any irregularities with respect to the hedge funds managed by the hedge fund adviser, and Coastal will investigate and follow up on the irregularities until it concludes that they do not raise compliance issues;
- Require the hedge fund adviser to immediately notify Coastal of any compliance violation involving or impacting clients of Coastal and any material compliance violation, irrespective of whether it impacts Coastal clients;
- Require the hedge fund adviser to inform Coastal about any material changes to its business;
- Track and analyze performance of the hedge fund on a daily basis, which will necessitate implementing systems and coordinating with the hedge fund's adviser to ensure the timely reporting of the information so that Coastal can measure, for example, the following:
  - Bias ratio;
  - Serial correlation; and
  - Skewness of the return distribution;
- Attempt to negotiate position-level transparency of the hedge fund's portfolio so that Coastal can:
  - Ascertain its client's market sector exposures;
  - Identify position concentration across the client's entire portfolio; and
  - Identify individual positions that may present risks that are anomalous and inconsistent with the hedge fund adviser's stated investment strategy;
- Periodically evaluate the hedge fund's portfolio risk; and
- Review the value the hedge fund adviser is assigning to hedge fund portfolio positions, and where such valuation is inconsistent with market prices, inquire about the discrepancy, including the methodology used by the hedge fund adviser to value the security in question.

### 5.3.13.3 Redemption Terms and Liquidity

Coastal will review the redemption terms prior to investing in a hedge fund and after such investment shall monitor the liquidity of the hedge fund to ensure that it can meet redemption requests. In doing so, Coastal shall:

- Assess the appropriateness of redemption terms;

- Examine the liquidity of the portfolio securities and other assets of the hedge funds, especially to see how the expected liquidity matches the redemption terms ( e.g., a mis-match would occur if there was monthly redemption terms with short tender periods and the hedge fund would have highly illiquid assets);
- Inquire as to whether other hedge fund investors have more favorable redemption terms and, if so, the details about such terms; and
- Monitor the ongoing liquidity of the hedge fund's portfolio and the hedge fund adviser's ability to meet redemption requests of other investors.

#### **5.3.13.4 Onsite Visits**

The Chief Compliance Officer when feasible shall make onsite visits to advisers of hedge funds that clients invest in and during such visit shall:

- Ask basic due diligence questions covering investment, risk and operational issues;
- Attempt to understand the culture of the hedge fund adviser;
- Look for control weaknesses;
- Request interviews with portfolio managers and other key personnel; and
- Review documents and other records.

#### **5.3.13.5 Signals for Concern**

The Chief Compliance Officer will look for certain indicators suggesting risk and other concerns with respect to the advisers of hedge funds that clients invest in, including:

##### **Investments**

- Advisers that are unwilling to provide requisite transparency regarding portfolio holdings to the adviser;
- Performance returns that do not correlate with known factors associated with the adviser's strategy, as described by the adviser;
- Lack of clear research and investment processes; and
- Lack of an adequate control environment and segregation of duties between investment activities and business unit controllers (e.g., managers dominating the valuation process).

##### **Risk Management**

- Portfolio holdings that show a high concentration in a single investment position, or a heavy concentration in a single sector, for a purportedly diversified investment strategy;
- Adviser personnel that appear to be insufficiently knowledgeable about a sophisticated strategy they are purportedly implementing;
- Adviser investment style that appears to have drifted over time; and
- Investments, as described by the adviser, that appear to be overly complex or opaque.

##### **Operational**

- Lack of a third-party administrator or an unknown/unqualified administrator;
- Use of an auditor that may not have significant experience auditing hedge funds or is an unknown auditor;
- Multiple changes in key service providers, such as auditors, prime brokers, or administrators;
- Concerns identified in audited financial statements such as qualified opinions, related party transactions, or valuation concerns;
- Background checks that revealed unfavorable regulatory history, bankruptcy filings, or serious legal issues of the adviser or key personnel;

- Identification of undisclosed potential conflicts of interests, such as compensation arrangements or business activities with affiliates;
- Insufficient operational infrastructure, including an inadequate compliance program; and
- Lack of a robust fair valuation process.

### 5.3.14 Due Diligence

Prior to entering into a sub-advisory arrangement or investing client assets in any unaffiliated hedge fund, Coastal will conduct the following areas of due diligence inquiry on the sub-adviser or hedge fund adviser candidates ("Adviser"). Due diligence will be tailored to the circumstances and objectives of the use of a particular sub-adviser or investment in a particular hedge fund. It is recognized that Coastal may be unsuccessful in obtaining all of the requested information. With respect to any information not provided ( e.g., letters from regulatory agencies), the Chief Compliance Officer will review the explanation for not providing the information and factor that into his or her analysis regarding the overall decision of whether Coastal should do business with the Adviser.

#### 5.3.14.1 Documents

[Investment Advisers Act of 1940 Rule 206(4)-7]

Coastal will obtain and review:

- the Adviser's Form ADV (including all schedules);
- Form 13Ds, 13Fs and 13Gs;
- relevant sections in the Adviser's Compliance Manual (including its Code of Ethics and Insider Trading Procedures);
- copies of all letters and other correspondence from regulators received by the Adviser in the last ten years;
- list of principle service providers;
- SAS 70 reports;
- third-party reports on the Adviser; and
- Rule 206(4)-7 or other annual compliance reviews.

#### 5.3.14.2 Investment Management

Coastal will obtain and review the Adviser's:

- investment philosophy, strategy and methodology. Special focus will be placed on fully understanding the strategy;
- information about the relevant portfolio managers and analysts, the chief compliance officer and senior management;
- broker-dealer selection criteria and ongoing monitoring practices, execution quality and soft dollar, directed brokerage and step-out practices;
- portfolio manager turnover;
- research sources;
- risk controls, including those related to the investment portfolio and counterparties;
- turnover rate of portfolios, average number of holdings, and kinds of securities selected;
- practice of allocating investment opportunities among clients and treatment of partial fills;
- hedging activity;
- use of derivatives and other complex securities;
- use of leverage;
- investment of client assets in foreign securities;

- use of foreign currencies, foreign brokers and custodians and exchanges;
- concentration policies, including limits on concentration in sectors, industries and companies, concentration exposure to markets and counterparties; and
- willingness to be transparent when discussing investment strategy with clients.

#### **5.3.14.3 Performance**

Coastal will obtain the Adviser's:

- performance history and compare it to peer managers; and
- GIPS certification (if any).

#### **5.3.14.4 Operations**

With respect to the operations of the Adviser, Coastal will obtain the Adviser's:

- organizational chart;
- management team and structure;
- assets under management, average account size, number of clients and similar information;
- history in advisory business, including the histories of the Adviser's principals and relevant portfolio managers;
- business continuity plans and ongoing test results;
- sample client reports, including the frequency the reports are sent to clients; and
- valuation procedures, including procedures governing fair valuation.

In addition, Coastal will request information about the Adviser's:

- customer account, trade order, client reporting, performance calculation and reporting systems and databases;
- trade settlement procedures;
- tax reporting policies and procedures;
- information technology platforms; and
- order routing systems.

#### **5.3.14.5 Service Providers**

Coastal will obtain the name and information about the following service providers of the Adviser:

- D&O/E&O insurance carrier and fidelity bond issuer;
- custodian;
- administrator;
- accounting firm;
- portfolio accounting system vendor;
- pricing service and/or quotation service;
- law firm; and
- prime broker (if different from the custodian).

After obtaining such information, Coastal periodically will:

- verify that the Adviser maintains such relationships and is in good standing with the service providers;

- with respect to the custodian, confirm that the assets of the applicable clients are maintained with the custodian; and
- with respect to the administrator of hedge fund clients, confirm the net asset value of the applicable hedge funds, the valuation methodologies used and the fair value hierarchy is established under FASB ASC 820 (Level 1, 2 and 3).

#### **5.3.14.6 Compliance**

With respect to compliance, Coastal will inquire about the Adviser's:

- testing of its compliance procedures, including the use of forensic testing and exception reports;
- recent disciplinary actions taken against employees (if any);
- supervisory structure; and
- trade error policy and recent significant trade errors.

#### **5.3.14.7 Financial Condition**

Coastal will attempt to ascertain the general financial condition of the Adviser. This information is often highly sensitive, so Coastal may have difficulty in collecting all of the requested information. Coastal will request the following information:

- management letters from auditors and responses thereto;
- agreements or information about agreements creating restrictions or liens ( e.g., loan agreements);
- ownership and capital structure;
- how principals of the Adviser are compensated, including any special compensation arrangements; and
- the revenue streams to the Adviser and any revenue sharing arrangements with third parties.

#### **5.3.14.8 Conflicts**

Coastal will seek to ascertain the significant conflicts of interest existing for the Adviser by:

- obtaining list of conflicts of interest;
- reviewing the relationships with broker-dealers, custodians or other service providers;
- obtaining a list of client accounts that are related to the sub-adviser (including proprietary trading or investment accounts);
- reviewing portfolio manager compensation practices;
- reviewing performance-based fee arrangements with clients; and
- reviewing list of affiliated service providers, including auditors and broker-dealers.

#### **5.3.14.9 Marketing**

With respect to marketing, Coastal shall request:

- adviser marketing material samples;
- client communication samples; and
- information about the use of third-party solicitors, including descriptions of such arrangements.



#### **5.3.14.10 Disciplinary/Regulatory/Litigation Issues**

Coastal will request and review the following from the Adviser:

- regulatory examination letters;
- litigation;
- customer complaints; and
- knowledge of regulatory investigations and proceedings.

#### **5.3.14.11 Due Diligence Process**

Coastal shall generally conduct its due diligence investigation as follows:

- independently research the Adviser;
- request various documents from the Adviser;
- send a due diligence questionnaire to the Adviser;
- analyze the results of the completed questionnaire, with special attention to discrepancies with public or other available information about the Adviser;
- when feasible, visit the Adviser; and
- when necessary, follow-up questions to due diligence responses (sometimes called drill-down due diligence).

### **5.4 Form ADV Disclosure and Other Disclosure**

Generally, conflicts of interest can be addressed by disclosure and/or client consent. If an Adviser Representative on behalf of Coastal enters into a transaction or arrangement that raises a potential conflict of interest, the Adviser Representative will make a full and frank disclosure of such conflict. Adviser Representative will inform the Chief Compliance Officer about this conflict, and the Chief Compliance Officer will make sure that such disclosure is in the firm's Brochure (Part 2A), and, depending on the nature of the conflict, will consider making such disclosure in a separate written document sent to the client. In addition, it also may be prudent for Coastal to obtain written client consent for certain conflicts of interest.

Coastal shall disclose (report) in Item 5 of Part 1A of its Form ADV whether:

- it engages in borrowing transactions on behalf of any separately managed account clients it advises;  
and
- it engages in derivative transactions on behalf of any separately managed account clients it advises.

Coastal shall disclose (report) in Schedule D of its Form ADV the percentage of its separately managed account assets invested in the following:

- ETF securities
- U.S. government and agency bonds
- U.S. state and local bonds
- Sovereign bonds
- Corporate bonds - Investment Grade
- Corporate bonds - Non-Investment Grade
- Securities issued by registered investment companies and business development companies
- Securities issued by non-registered investment companies
- Other securities

The frequency and type of information reported by Coastal on Schedule D regarding derivatives and other assets shall depend on whether Coastal's separately managed account assets under management are:

- Less than \$150 million
- \$150 million but less than \$10 billion
- \$10 billion or more

## 5.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(9) and 204-2(a)(10)]

Coastal shall maintain in its Investment Management books and records the following research-related records:

- Originals of all written communications received and copies of all written communications sent by Coastal relating to (i) any recommendation made or proposed to be made and any advice given or proposed to be given, (ii) any receipt, disbursement or delivery of funds or securities, and (iii) the placing or execution of any order to purchase or sell any security;
- All materials received from outside sources that relate to recommendations or investment advice given, or proposed to be given, to clients, including all research reports and other materials received from whatever source if they are used in the process of providing advice. Materials should be maintained by Adviser Representatives irrespective of whether they result in a decision to buy, sell, or hold a particular security; and
- Documentation reflecting the background and financial information on the client.

The following types of research materials, however, are not required to be maintained by Adviser Representatives:

- Materials not solicited by Coastal or the Adviser Representative that are of general public distribution;
- Newspapers, magazines and similar periodicals, even if they are used to make an investment decision; and
- Research reports that are stored in a computer system of a third-party provider, provided such reports can be readily accessed.

Coastal shall maintain in its Investment Management books and records the following records for each client security position it fair values:

- The name of the issuer of the security and the amount of such security that is fair valued;
- Documentation for each valuation decision, including the factors on which the decision was based; and
- List of pricing services, quotation services and externally-acquired portfolio accounting systems used to make such valuation.

Coastal shall maintain in its Investment Management books and records the following discretionary authority records:

- All powers of attorneys and other evidences of the granting of any discretionary authority by any client to Coastal, or copies thereof (Rule 204-2(a)(9)); and
- All written agreements (or copies thereof) entered into by Coastal with any client or otherwise relating to the business of Coastal (Rule 204-2(a)(10)).

# 6 TRADES

## Introduction

[Investment Advisers Act of 1940 Rule 204-2(a)(3)]

Orders are instructions that adviser representatives or traders of investment advisers give to broker-dealers that arrange client trades. An order specifies which security to trade, how much to trade, and whether to buy or sell. An order may also include conditions that a trade must satisfy. The most common conditions limit the prices that the adviser representative, client or trader will accept.

Rule 204-2(a)(3) under the Investment Advisers Act of 1940 requires a memorandum (sometimes called a "trade ticket") to be prepared for each securities order given by an investment adviser on behalf of a client. In some cases, an investment adviser permits its investment adviser representatives to place trades directly with broker-dealers. In other cases, the investment adviser representative must forward the trade ticket to the person at the investment adviser responsible for placing securities orders (sometimes called the "trader" or the "trading desk"). The trader selects a broker-dealer from the approved list of broker-dealers and places the client order with the broker-dealer that offers the best execution (price, commission, etc.). (Best Execution is covered in the "Brokerage" chapter of this Compliance Manual.) In many cases, the investment adviser requires a second person (e.g., another trader or the chief investment officer) to sign off on the securities order as a second layer of verification to the order's authentication.

After the broker-dealer executes the trade, it is required to send the investment adviser's client a confirmation statement with information about the trade. All parties involved in the trade also settle the trade. In the settlement process of a purchase of securities, the client's account at the broker-dealer is credited in the amount of the cost of the securities purchased (including the broker-dealer's commission) and that money is wired to the broker-dealer executing the trades. Securities acquired by the broker-dealer are transferred (or registered in the name of the investment adviser on behalf of the client). The broker-dealer forwards the money from the client's account (less its commission) to the broker-dealer of the seller of the securities. In securities markets, settlement occurs three business days after trades are executed (called "T+3").

After the settlement process of each trade or group of trades, the investment adviser reviews the trades to make sure they were authorized and properly executed and recorded. The investment adviser reviews trades in part to uncover any errors, which must be promptly corrected.

An advisory firm may place combined orders of securities for two or more clients with broker-dealers. Single orders for multiple accounts should be governed by securities trade aggregation procedures. Securities trade aggregation procedures differ from securities trade allocation procedures. Securities trade allocation is a process that occurs after the aggregated client order for securities has been executed by a broker-dealer.

Some investment advisers are also registered as broker-dealers or have affiliates registered as such. These advisers or their affiliates often act as broker-dealers for their advisory clients. Agency trade procedures govern trades where the investment adviser or an affiliate, as the client's broker-dealer, arranges for the purchase or sale of securities for the client and earns compensation on the trades. A "cross trade" is a securities transaction between two clients managed by the same adviser, where one client sells securities to another client. Typically, there is no broker-dealer or brokerage commission involved in a cross trade. An "agency cross trade" (which is different from both an agency trade and a cross trade) is a securities transaction involving a broker-dealer between two clients managed by the same adviser, where one client sells securities to another client, and the adviser has discretion over only one of the clients and executes the trade on behalf of both funds in its capacity as a broker-dealer. The trades of two clients are therefore crossed. In a principal transaction, the adviser acting on its own account (or an affiliate's account) purchases a security from, or sells a security to, a client.

## 6.1 Compliance Reference Chart

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer</li> <li>• Adviser Supervisor</li> </ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"> <li>• Operations</li> <li>• Legal</li> <li>• Investment Management</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Each time Coastal places a trade for a client</li> <li>• Periodic reviews of compliance with procedures governing agency, agency cross transaction, aggregated, and principal trades, and trade allocation</li> </ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"> <li>• Section 206(3) of the Investment Advisers Act of 1940</li> <li>• Rule 206(3)-2 under the Investment Advisers Act of 1940</li> </ul>
<b>Records</b>	<ul style="list-style-type: none"> <li>• All trade related records</li> <li>• Records related to the operation of procedures governing agency, agency cross transaction, aggregated, and principal trades and trade allocation</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Trading Procedures annually.</li> </ul>

## 6.2 Policy

It is Coastal's policy to prepare a trade ticket for each client securities order, place the order with an approved broker-dealer in a timely manner, review client trades for accuracy, and follow procedures governing agency trades, agency cross transactions, aggregation of trades, allocation of trades and principal trades.

## 6.3 Procedures

### 6.3.1 Trade Tickets

#### 6.3.1.1 Persons Authorized to Prepare Trade Tickets

Only the following persons may prepare a trade ticket for a securities order to be placed on behalf of a client:

- Investment Adviser Representative recommending the trade

##### 6.3.1.1.1 Persons Authorized to Approve Trade Tickets

Each trade ticket must contain the signature of the following persons:

- Investment Adviser Representative recommending the trade

- Trader placing the trade with a broker-dealer

### 6.3.1.2 Trade Ticket Preparation

Coastal Adviser Representatives and traders will prepare a trade ticket in paper format or electronically using the applicable broker-dealer's electronic platform:

- **Non-Discretionary Accounts:** each time an instruction is received by an Adviser Representative from a client concerning the purchase, sale, receipt, or delivery of a security for non-discretionary accounts; and
- **Discretionary Accounts:** each time an Adviser Representative places an order with a broker-dealer concerning the purchase, sale, receipt or delivery of a security for discretionary accounts.

Each trade ticket shall contain the following information:

1. The name of the security and its symbol;
2. The terms and conditions of the order, instruction, modification or cancellation;
3. The name of the Adviser Representative who recommended the transaction;
4. The name of the Adviser Representative or trader who will place the order;
5. The name and account number of the client for whom the order is entered;
6. The date the order is entered;
7. The name of the broker-dealer through whom the order was executed;
8. The market in which the transaction occurred;
9. The order type (buy/sell) (long/short);
10. Any client limits (time/price);
11. Quantity of securities purchased or sold;
12. Price at which trade was executed;
13. Commission or fees charged;
14. Any instruction, modification or cancellation of the order;
15. An indication of whether or not the order was entered through Coastal's discretionary power; and
16. If the order is for two or more clients, information about how the order will be aggregated and allocated to the participating clients.

Coastal maintains the required information about the trade in a trade blotter kept with the custodian.

### 6.3.1.3 Placement of Securities Orders

Only the following employees of Coastal may place securities orders written on trade tickets with approved broker-dealers:

- Trader placing the trade with a broker-dealer
- Investment Adviser Representative recommending the trade

### 6.3.1.4 Order Strategies

Coastal recognizes that its order submission and trade strategies are important factors that influence whether clients will achieve their investment goals, including returns on their investments. Coastal shall use appropriate types of orders, including:

- Market orders
- Limit orders
- Stop market orders

- Stop limit orders
- Tick sensitive orders
- Spread orders

Coastal will attempt to place orders immediately. If appropriate, Coastal will use strategies when placing relatively larger orders to minimize the impact of such orders on prices and other appropriate strategies in the attempt to obtain the best price for its client.

### **6.3.1.5 Unauthorized Trades and Trading Practices**

Neither Coastal nor any employee may engage in front-running, scalping and certain other prohibited activities.

#### **6.3.1.5.1 Front-Running and Scalping**

Coastal will not engage in front-running or scalping.

#### **6.3.1.5.2 Front-Running**

"Front-running," which is illegal, would occur should Coastal cause a performance fee paying advisory client account or a Firm or Firm affiliate ("Firm Affiliate") account to purchase or make sales of securities in advance of the same transactions for non-performance fee paying advisory client or non-Firm Affiliate accounts. Coastal, therefore, will not:

- purchase a security on behalf of a Firm Affiliate or performance fee paying client account if the portfolio manager intends, or knows Coastal intends, to purchase that security or a related security on behalf of a non-Firm Affiliate or non-performance fee paying client account; and
- sell a security on behalf of a Firm Affiliate or performance fee paying client account if the portfolio manager intends, or knows Coastal intends, to sell that security or a related security on behalf of a non-Firm Affiliate or non-performance fee paying client account.

#### **6.3.1.5.3 Scalping**

Coastal will not engage in the practice of "scalping." "Scalping," which is illegal, would occur should Coastal cause a non-Firm Affiliate or non-performance fee paying advisory client account to buy a security, while secretly intending for the market price of the security to rise so that Coastal could cause a Firm Affiliate or performance fee paying advisory client to sell the same security. Coastal will also not engage in the practice of "reverse scalping" by causing a non-Firm Affiliate or non-performance fee paying advisory account to sell a security, while secretly intending for the market price of the security to fall so that Coastal could cause a Firm Affiliate or performance fee paying advisory client account to buy the security.

#### **6.3.1.5.4 Investment Opportunities**

Coastal shall afford attractive investment opportunities equally to performance fee paying advisory client accounts and other advisory accounts in an equitable manner.

#### **6.3.1.5.5 Other Unauthorized Trading**

Neither Coastal nor any employee will engage in any of the following activities:

- Placing a securities order that is not authorized by a client in connection with a non-discretionary account or that goes beyond the authority permitted with respect to a discretionary account;
- Placing a securities order for fraudulent purposes;
- Placing a securities order for an unsuitable transaction for a client;
- Engaging in a manipulative transaction;
- Effecting an agency cross transaction between two clients (unless Coastal's procedures governing such transactions are followed);
- Effecting transaction in a security on Coastal's Restricted List;
- Engaging in agency or principal transactions (unless Coastal's procedures governing such transactions are followed); and
- Engaging in prohibited "interpositioning," a practice that occurs when an investment adviser or its personnel place a client order with a broker to effect a transaction as agent, rather than placing the order directly with a market maker.

### **6.3.2 Trade Confirmations**

At or before the completion of a securities transaction for a client of Coastal, a broker-dealer is required by law to provide the client with a written confirmation of the transaction.

The Chief Compliance Officer will require each approved broker-dealer to send Coastal a duplicate copy of the confirmation in paper or electronic format. The Chief Compliance Officer will verify that each confirmation or a random selection of confirmations contains the following information:

1. Client's name and account number;
2. Broker-dealer's name;
3. Date of the transaction;
4. Issuer of the security;
5. Price of the security purchased or sold;
6. Statement as to whether the security was purchased or sold;
7. Number of shares purchased or sold;
8. Market on which the transaction took place;
9. Broker-dealer's commission;
10. Various expenses (e.g., interest, tax and registration fees); and
11. Statement as to whether the broker-dealer acted as principal for its own account.

Transactions in money market securities and certain mutual fund investment plans are excluded from the confirmation requirement, provided the broker-dealer sends periodic account statements, containing descriptions of the client's transactions, to the client. Coastal will periodically confirm that such Broker-Dealer's periodic account statements include required descriptions of client transactions.

### **6.3.3 Trade Review and Reconciliation**

#### **6.3.3.1 Trade Review**

##### **6.3.3.1.1 Review**

Through sampled review of customer accounts during branch inspections, supervisory review of alerts generated by the firm's affiliated broker-dealer supervision software, and/or random sampling reviews of accounts, the Adviser's supervisor will review the following documents related to client trades:

- Daily blotters;
- Copies of confirmations; and
- Order Tickets.

The supervisor will attempt to verify:

- Accurate and proper recordation;
- Suitability of investments for the client and consistency with the client's investment objectives; and
- The absence of any improper trading in the client's account.

#### **6.3.3.1.2 Prohibited Activities**

The Adviser's designated supervisor will watch for:

- Establishment of a fictitious account to circumvent Coastal's policies and procedures;
- Discretionary trades for a client who has not given Coastal discretionary authority;
- Unauthorized use of client's funds;
- Effecting securities transactions without proper licenses; and
- Delaying a client trade for the purpose of increasing the profit in an employee trade.

#### **6.3.3.1.3 Investment Objectives and Restrictions**

The Adviser will obtain information from each client setting forth each client's investment objectives, policies and restrictions. Through supervisory review and branch inspection review of sampled files, the firm will ensure that investments made for each client are consistent with this information. The firm will monitor compliance with client objectives, policies and restrictions. If a compliance issue is detected, the Chief Compliance Officer will bring the matter to the attention of senior officers of Coastal and initiate steps to remedy the situation.

### **6.3.4 Agency Trades**

[Investment Advisers Act of 1940 Section 206(3); Investment Advisers Act of 1940 Release No. 1732 (July 17 1998)]

An agency trade is a trade where Coastal or an affiliate acts as a broker for its clients by placing a client trade in a market or with another person. Coastal may effect agency trades for clients only if Coastal is registered as a broker-dealer, unless Coastal does not receive any compensation (except for advisory fees) in connection with such agency trades. See *Interpretation of Section 206(3) of the Investment Advisers Act of 1940, Investment Advisers Act Rel. No. 1732 (July 17, 1998)*.

#### **6.3.4.1 Agency Trade Procedures (Where Adviser Acts as a Broker-Dealer)**

Coastal or an affiliate shall act as a broker-dealer in an agency transaction made on behalf of a client only if:

1. The client sends a Letter Authorizing the Use of an Affiliated Broker-Dealer;
2. The transaction is in the best interest of the client;
3. The practice of engaging in agency transactions is disclosed in Coastal's Form ADV and the client's Investment Advisory Contract;
4. The nature and terms of each agency transaction is disclosed to the client;



5. Written consent is obtained from the client for each transaction prior to "completing the transaction," in the manner described below; and
6. Coastal or its affiliate is registered as a broker-dealer or exempt from having to register as such.

Coastal shall not engage in an agency trade as a broker-dealer and for compensation if Coastal (or an affiliate) advises both clients to make the trade.

#### **6.3.4.2 Timing of Consent**

Coastal deems an agency securities transaction to be complete upon settlement of the trade -- not upon execution of the trade. Accordingly, Coastal will obtain client consent *either*:

- Prior to the execution of the agency trade; or
- After the execution (but prior to the settlement) of the agency trade.

Coastal may obtain consent after the execution of the trade, but before the settlement of the trade (i.e., when the actual exchange of the securities and payment occurs), if the following conditions are met:

- Coastal transmits the current quoted price for a proposed transaction to the client;
- Coastal discloses the proposed commission charges; and
- Coastal informs the clients that they may opt out of the transaction.

#### **6.3.4.3 Form of Consent**

Coastal will draft the consent in a manner so that the client is informed about the nature of the agency trade. The consent will disclose facts necessary to alert the client as to Coastal's potential conflicts of interest in the agency transaction. The consent will not be drafted in a manner that gives the client no choice but to consent.

#### **6.3.4.4 Method of Consent**

Coastal may obtain a client's written consent in hard copy, by facsimile or by electronic means.

#### **6.3.4.5 Wrap Fee Program for Agency Trades**

For any agency trade of securities with a wrap fee client in which Coastal acts in the capacity as a broker-dealer in connection with a wrap fee program, the above conditions do not apply to that arrangement, provided:

- the trade is directed to Coastal by a portfolio manager with investment management authority over the wrap fee client's account;
- Coastal does not recommend, select or play any role in that portfolio manager's selection of particular securities to be purchased for or sold on behalf of the wrap fee client; and
- Coastal complies with the conditions set forth by the SEC in *Morgan Lewis & Bockius, SEC No-Action Letter (pub. avail. Apr. 16, 1997)* .

If Coastal indirectly participates in the selection of specific securities on behalf of such wrap fee program client because Coastal provides certain services and products to a portfolio manager with investment management responsibility over the wrap fee client's account, the above conditions do not apply to that arrangement, provided that the services or products provided by Coastal:

- are distributed in the ordinary course of Coastal's business as a broker-dealer;

- are not directed primarily to the wrap fee program portfolio managers;
- do not give greater emphasis to recommendations, information or an opinion about securities held in Coastal's inventory as compared to securities not held in such inventory; and
- Coastal complies with the conditions set forth by the SEC in *Morgan Lewis & Bockius, SEC No-Action Letter (pub. avail. Apr. 16, 1997)* .

### 6.3.5 Agency Cross Trades

[Investment Advisers Act of 1940 Rule 206(3)-2]

Rule 206(3)-2 under the Investment Advisers Act of 1940 permits Coastal to arrange for an agency cross trade. An agency cross trade (which is different from both an agency trade and a cross trade) is a securities transaction involving a firm both registered as an investment adviser and broker-dealer between an advisory client and a non-advisory client, where the advisory client buys from, or sells securities to, the non-advisory client, and the dually registered adviser/broker-dealer has discretion over only the advisory client's account and executes the trade on behalf of both clients in its capacity as a broker-dealer. The security therefore crosses from the advisory client account to the non-advisory client account. Coastal in the capacity of a broker-dealer may effect such purchase and sale transactions between two clients for a commission, provided the conditions set forth herein are met.

#### 6.3.5.1 Fiduciary Duty

Coastal will only engage in an agency cross transaction if such trade is in the best interests of the participating advisory client and brokerage customer, and neither is disadvantaged by such trade.

#### 6.3.5.2 Price

Each agency cross trade shall be effected at the independent current market price of the security. Such market price shall be one of the following:

- **Reported Security:** the last sale price with respect to such security reported in the consolidated transaction reporting system or the average of the highest current independent bid and lowest current independent offer for such security if there are no reported transactions in the consolidated transaction reporting system that day;
- **Non-Reported Exchange Traded Security:** the last sale price on the principal exchange for which such security trades or the average of the highest current independent bid and lowest current independent offer for such security if there are no reported independent transactions on such exchange that day;
- **Non-Reported NASDAQ Quoted Security:** the average of the highest current independent bid and lowest current independent offer reported on Level 1 of NASDAQ; and
- **Other Securities:** the average of the highest current independent bid and lowest current independent offer determined on the basis of reasonable inquiry.

#### 6.3.5.3 Consent

Prior to executing an agency cross trade, Coastal will obtain each client's consent. A given client may participate in an agency cross trade, provided he or she has executed a written consent prospectively authorizing Coastal to effect agency cross trades for his or her account.

#### 6.3.5.4 Confirmations

Coastal will send, or cause to be sent, to the advisory client participating in the agency cross trade a written confirmation at or before the completion of each trade containing:

- A statement of the nature of such trade;
- The date such trade took place;
- An offer to furnish, upon request, the time when such trade took place;
- The source and amount of any compensation or other remuneration received or to be received by Coastal or an affiliate thereof; and
- **The statement in bold print:** "Client's written consent authorizing Coastal to effect agency cross trades on his or her behalf may be revoked at any time by the client by means of written notice."

#### 6.3.5.5 Periodic Statements

Coastal shall send to each client, at least annually, a written statement identifying:

- the total number of agency cross trades during the period since the date of the last such statement, and
- the total amount of all commissions or other remuneration received or to be received by Coastal for such period in connection with these trades. Such statement may accompany a regular account statement sent to the client showing his or her account activity over the relevant period.

#### 6.3.5.6 Recommendations to Both Clients

Coastal will **not** engage in an agency cross trade where it recommends the transaction to both the buying client and selling client.

#### 6.3.5.7 Compensation

Coastal may receive compensation for facilitating agency cross trades, including any commission or transaction-based fees.

#### 6.3.5.8 ERISA

Since the Department of Labor may view an agency cross trade as a potential prohibited transaction under ERISA, Coastal will not engage in such trades on behalf of ERISA clients without approval from inside or outside counsel who concludes that such approval is not necessary.

#### 6.3.6 Cross Trades

A cross trade is a pre-arranged trade between two advisory clients that are managed by Coastal, involving no broker-dealer or brokerage commissions. The security therefore crosses from one advisory client account to another advisory client account. Coastal may effect a cross trade between two advisory clients, provided the conditions set forth herein are met.

### 6.3.6.1 Fiduciary Duty

Coastal will only engage in a cross trade if such trade is in the best interests of each participating advisory client and no client is disadvantaged by such trade.

### 6.3.6.2 Price

Each cross trade shall be effected at the independent current market price of the security. Such market price shall be one of the following:

- **Reported Security:** the last sale price with respect to such security reported in the consolidated transaction reporting system or the average of the highest current independent bid and lowest current independent offer for such security if there are no reported transactions in the consolidated transaction reporting system that day;
- **Non-Reported Exchange Traded Security:** the last sale price on the principal exchange for which such security trades or the average of the highest current independent bid and lowest current independent offer for such security if there are no reported independent transactions on such exchange that day;
- **Non-Reported NASDAQ Quoted Security:** the average of the highest current independent bid and lowest current independent offer reported on Level 1 of NASDAQ; and
- **Other Securities:** the average of the highest current independent bid and lowest current independent offer determined on the basis of reasonable inquiry.

### 6.3.6.3 Compensation

Coastal may not receive compensation for facilitating cross trades, including any commission or transaction-based fees, other than its ordinary advisory fee.

### 6.3.6.4 Disclosure

The practice of engaging in cross trades will be disclosed in Coastal's Form ADV and the client's Investment Advisory Contract. The disclosure will contain the facts necessary to alert the client to the Firm's potential conflicts of interest.

### 6.3.6.5 ERISA

Since the Department of Labor may view a cross trade as a potential prohibited transaction under ERISA, Coastal will not engage in such trades on behalf of ERISA clients without approval from inside or outside counsel who concludes that such approval is not necessary.

### 6.3.7 Principal Trades

In a principal transaction, Coastal, acting on its own account (or an affiliate's account) purchases a security from, or sells a security to, an advisory client. The Firm deems any pooled investment vehicle (e.g., a hedge fund) in which the Firm and/or its controlling persons, in the aggregate, own 25% or more of the interests therein, to be an affiliate account.

### 6.3.7.1 Principal Trade Procedures

Coastal shall engage in principal transactions only if:

1. The client sends a Letter Authorizing Adviser to Engage in Principal Transactions with the Client;
2. The transaction is in the best interest of the client;
3. The practice of engaging in principal transactions is disclosed in Coastal's Form ADV and the client's Investment Advisory Contract;
4. The nature and terms of each principal transaction is disclosed to the client, including (i) Coastal's original purchase price for the security it proposes to sell to the client, (ii) the price Coastal expects to receive on resale for securities it purchases from clients; and (iii) the price at which the security could be bought or sold elsewhere, in the event the client would have received a better price; and
5. Written consent is obtained from the client for each transaction prior to "completing the transaction," in the manner described below.

### 6.3.7.2 Timing of Consent

Coastal deems a principal securities transaction to be complete upon settlement of the trade (not upon execution of the trade). Accordingly, Coastal will obtain client consent *either* :

- prior to the execution of the principal trade; *or*
- after the execution (but prior to the settlement) of the principal trade.

Coastal may obtain consent after the execution of the transaction, but before the settlement of the transaction (i.e., when the actual exchange of the securities and payment occur), if the following conditions are met:

- Coastal transmits the current quoted price for a proposed transaction to the client;
- Coastal discloses the proposed commission charges; and
- Coastal informs the clients that they may opt out of the transaction.

### 6.3.7.3 Form of Consent

Coastal will draft the consent in a manner so that the client is informed about the nature of the principal trade. The consent will alert the client as to Coastal's potential conflicts of interest in the principal transaction. The consent will not be drafted in a manner that gives the client no choice but to consent. Therefore, the consent should disclose:

- the capacity in which Coastal proposes to act;
- the facts necessary to alert the client to the adviser's potential conflicts of interest;
- the cost to Coastal of any security that it proposes to sell to the client, or the resale price of any security that Coastal proposes to buy from the client; and
- the best price at which the transaction could be effected by, or for, the client elsewhere if that price is more advantageous to the client than the actual purchase or sale price.

### 6.3.7.4 Method of Consent

Coastal may obtain client's written consent in hard copy, by facsimile or by electronic means.

### 6.3.7.5 Acting as a Broker-Dealer

For any trade of securities with the client in which Coastal acts as a principal and in the capacity as a broker-dealer, the above conditions do not apply, provided Coastal is not exercising investment discretion (except if such discretion is granted on a temporary basis) and the other conditions of Rule 206(3)-3T under the Advisers Act are met.

Rule 206(3)-3T, a temporary rule under the Advisers Act, provides an alternative means for investment advisers that are registered with the SEC as broker-dealers to meet the requirements of Section 206(3) of the Advisers Act when they act in a principal capacity in transactions with certain of their advisory clients. On December 20, 2012, the SEC extended the temporary rule until December 31, 2014.

### 6.3.7.6 Wrap Fee Program

For any principal trade of securities with a wrap fee client in which Coastal acts as a principal and in the capacity as a broker-dealer in connection with a wrap fee program, the above conditions do not apply to that arrangement, provided:

- the trade is directed to Coastal by a portfolio manager with investment management authority over the wrap fee client's account;
- Coastal does not recommend, select or play any role in that portfolio manager's selection of particular securities to be purchased for or sold on behalf of the wrap fee client; and
- Coastal complies with the conditions set forth by the SEC in *Morgan Lewis & Bockius, SEC No-Action Letter (pub. avail. Apr. 16, 1997)*.

If Coastal indirectly participates in the selection of specific securities on behalf of such wrap fee program client because Coastal provides certain services and products to a portfolio manager with investment management responsibility over the wrap fee client's account, the above conditions do not apply, provided that the services or products provided by Coastal:

- are distributed in the ordinary course of Coastal's business as a broker-dealer;
- are not directed primarily to the wrap fee program portfolio managers;
- do not give greater emphasis to recommendations, information or an opinion about securities held in Coastal's inventory as compared to securities not held in such inventory; and
- Coastal complies with the conditions set forth by the SEC in *Morgan Lewis & Bockius, SEC No-Action Letter (pub. avail. Apr. 16, 1997)*.

### 6.3.8 Aggregation of Securities Trades

These Trade Aggregation Procedures govern the parallel investments of client accounts in securities of the same issuer. The aggregation is designed to promote fairness among the client accounts managed by Coastal and to conform to applicable laws and regulatory principles. See *SMC Capital Inc., SEC No-Action Letter (pub. avail. Sept. 5, 1995)*.

#### 6.3.8.1 Order Aggregation

Coastal is an independent model RIA. Each branch office operates independently from another, and may hold different investment philosophies and styles from one another. It is therefore unreasonable for Coastal to monitor all trading among the Firm's registrants to determine whether and whenever aggregation of trades

should occur. Whenever feasible, however, trade orders will be aggregated when Adviser Representatives desire to purchase or sell the same security for multiple clients.

- The Chief Compliance Officer or a designee will cause Coastal to obtain consent from a client before aggregating his or her trades with those of other clients. Such consent shall be obtained in the Investment Advisory Contract or in a separately written agreement.
- All Adviser Representatives who desire their client trades to be aggregated will communicate such desire to the Chief Compliance Officer or designee.
- The price of the securities purchased or sold in an aggregated order will be at the average share price for all transactions of the clients in that security on a given day, with all transaction costs shared on a pro rata basis.
- Coastal will avoid holding cash and securities involved in an aggregated trade longer than necessary.
- Coastal will avoid receiving additional compensation as a result of the aggregation.
- The allocation of securities obtained in an aggregated securities order will be made in accordance with Coastal's Trade Allocation Procedures.

#### **6.3.8.2 Review**

The Chief Compliance Officer or designated supervisor will review periodically all aggregated trades to ensure that Coastal's policies and procedures are being followed and to verify that no client account is systematically being disadvantaged by being included in the aggregated trades.

#### **6.3.8.3 Aggregating of Client Trades with Employee Trades**

A client trade will be aggregated with an employee trade or trade by an affiliated account only if the following conditions are met:

1. Client trades are treated equally with employee and affiliated account trades;
2. Each affiliated and non-affiliated participant in the trade will receive average execution and average commissions;
3. Securities purchased or sold will be allocated pro rata; and
4. The practice of aggregating client trades with those of Coastal employees and affiliated accounts will be fully disclosed in the Form ADV of Coastal and each client's Investment Advisory Contract.

#### **6.3.8.4 ERISA Block Trades**

Coastal may aggregate a trade ("Block Trade") by a plan and a Party In Interest (as defined herein), provided the following conditions are met:

1. at the time of the Block Trade, the interest of the plan (together with the interests of any other plans maintained by the same plan sponsor), does not exceed 10 percent of the aggregate size of the Block Trade,
2. the terms of the Block Trade, including the price, are at least as favorable to the plan as an arm's length transaction,
3. the compensation associated with the purchase and sale is not greater than the compensation associated with an arm's length transaction with an unrelated party, and
4. the Block Trade is of at least 10,000 shares or with a market value of at least \$200,000.

#### **6.3.9 Trade Allocation**

The Trade Allocation Procedures govern the allocation of aggregated trades in securities placed on behalf of multiple clients. The Trade Allocation Procedures are designed to promote fairness among the client accounts managed by Coastal and to conform to applicable laws and regulatory principles. Trade allocation is particularly important if the security being allocated is unusually attractive (such as an Initial Public Offering (IPO)).

### **6.3.9.1 General Principal**

Coastal owes a fiduciary duty to each client that it advises. These Trade Allocation Procedures are designed to ensure that the principals of Coastal will not favor one client over other clients through the allocation of investment opportunities among them.

As a fiduciary, Coastal owes each client the duty of loyalty. In essence, this duty requires Coastal to act primarily for the clients' benefit and to treat each client fairly. No client is owed a greater or lesser degree of fiduciary duty and, therefore, no client or groups of clients may be given preferential treatment in the allocation of investment opportunities. Coastal's duty of loyalty and the equitable treatment of client accounts are the basic principles underlying these procedures.

In general, investment decisions for each client are made independently from those of other clients and are made with specific reference to the individual needs and objectives of each client. Because investment decisions may affect more than one client, it is inevitable that at times it will be desirable to acquire or dispose of the same securities for more than one client account at the same time and that there will be investment opportunities that are appropriate for more than one client.

It should be noted that while the goal of these Procedures is to achieve equitable allocation of investment opportunities and trades, each client cannot be treated exactly alike and that all allocations cannot be done on the basis of a pre-determined formula. There are differences in each client's needs, investment criteria, investment objectives, size and fee levels. To the extent more than one client seeks to acquire the same security at the same time, it may not be possible to acquire a sufficiently large quantity of the same security, or Coastal may have to pay a higher price or obtain a lower yield for the security. Similarly, clients may not be able to obtain as high a price for, or as large an execution of, an order to sell (including short sales) a particular security when Coastal is acting for more than one client at the same time. It also may not be feasible to make every limited investment opportunity available to all clients.

These Procedures have been designed to ensure that buy and sell opportunities are allocated fairly among the clients and that, over time, all clients are treated equitably, and that any differences in trades are not intended to give preferential treatment to any particular client. These procedures also seek to ensure reasonable efficiency in client transactions and to provide portfolio managers of Coastal with the flexibility to use allocation methodologies appropriate to their investment discipline and the client's investor base.

The Chief Compliance Officer shall be responsible for ensuring that aggregated trades (i.e., securities acquired in a single trade for multiple client accounts) are allocated to the multiple client accounts in accordance with the following procedures.

### **6.3.9.2 Allocation Sheet**

The Adviser responsible for trading will prepare an Allocation Sheet that will set forth the size of each client's order, proposed allocation of the aggregated orders based on the size of each client's order, the type of client orders and other relevant information about the aggregated order, and forward to the Home Office.

### **6.3.9.3 Pro Rata Allocation**



Aggregated orders will be allocated on the Allocation Sheet by order size on a pro rata basis. For example, Client X is a buyer of 200 shares and Client Y is a buyer of 100 shares and the investment adviser is only able to acquire 150 shares. Client X receives 100 shares and Client Y receives 50 shares.

#### **6.3.9.4 Exceptions to Pro Rata Allocation**

##### **6.3.9.4.1 Partial Fills**

If Coastal is not able to completely fill an aggregated order for a security, the completed orders are generally allocated pro rata based on the order size set forth in the Allocation Sheet. If Coastal is unable to execute limit orders, the market orders are filled, with allocation pro rata among only the clients submitting market orders.

##### **6.3.9.4.2 Unlimited Orders**

- **Buy Orders.** If several clients seek to buy as many securities of the same issuer as they can, Coastal will allocate the securities acquired by the size of assets of each client's account.
- **Sell Orders.** If several clients seek to sell as many securities of the same issuer as they can, Coastal will allocate the securities sold based on the total size of each client's position in that security.

##### **6.3.9.4.3 Random Allocations**

In cases where client accounts would receive less than the desirable number of shares as judged by Coastal, the aggregated trade may be allocated by Coastal to client accounts on a random basis. Coastal shall use a computer software program or other fair system to allocate such trades on a random basis. Client accounts that receive random allocations generally will not be eligible for the next random allocation.

##### **6.3.9.4.4 Documenting Exceptions**

Coastal, a portfolio manager or trader may make an allocation of an aggregated trade on a basis other than pro rata if:

- It is in the best interests of clients;
- An appropriate reason for the deviation from pro rata allocation exists, including:
  - A client has a unique or specialized investment objective that emphasizes investment in a particular category of securities and the security being acquired meets that investment objective and falls within that category;
  - The allocation would be too small to establish a meaningful position for the client in that security; or
  - The allocation would result in an account receiving an odd lot.
- All participating clients in the aggregated order are treated fairly and the variation from a pro rata allocation does not result in an unfair advantage or disadvantage to a client, or unfairly advantage Coastal; and
- The portfolio manager or trader responsible for the deviated allocation describes in writing an explanation for the deviation on the order's trade ticket.

#### **6.3.9.5 Price**

The price of the securities allocated shall be the average share price for all transactions of the clients in that security on a given day, with all transaction costs shared on a pro rata basis.

#### **6.3.9.6 Settlement**

Neither cash nor securities will be held longer than necessary to settle the purchase and sale of aggregated orders. Any cash or securities held collectively for client accounts shall be delivered as soon as practicable after settlement.

#### **6.3.9.7 Prohibited Trade Allocations**

Coastal will not allocate trades:

- for the purpose of benefiting Coastal or any of its officers or its employees;
- if Coastal receives any additional compensation or remuneration of any kind as a result of the aggregated orders; or
- to the accounts of business associates, friends or relatives while excluding advisory clients from the allocation of any securities.

In cases where the Firm places block trades on a pro rata basis amongst two or more clients that are participating in a block trade on a pro rata basis, the Firm will not apply or cause to be applied lower commission rates to certain participating clients and higher commission rates to other clients participating in the same block trade, including in situations where limitations have been placed on trading commissions for certain clients and not other clients.

#### **6.3.9.8 Timing**

Allocations will be made on the same day. Under no circumstances will Coastal delay allocation so that it can allocate the more favorable prices received during the day to one account and the less favorable prices to another account.

#### **6.3.9.9 Performance-Fee Accounts**

Coastal will not allocate "hot" trades or other favorable trades disproportionately to performance-fee accounts in an attempt to earn higher performance fees.

#### **6.3.9.10 IPOs**

Securities acquired in initial public offerings (IPOs) are allocated only to Eligible Accounts (as defined below) and such allocation is based on the total size of each client's investment portfolio. A client account shall be an "Eligible" Account only if the following conditions are met:

- Coastal has concluded that the client of the account can accept the increase risk associated with IPOs;
- The client requests in writing to participate in IPOs when available;
- The client has agreed to hold the securities purchased in the IPO for at least 14 days after purchase (to evidence investment intent); and

- The client represents in writing that he or she is not a restricted person under FINRA's Freeriding and Withholding interpretations.

### **6.3.9.11 Review**

The Chief Compliance Officer or designated supervisor will review each and every allocation of trades to ensure that the Trade Allocation Procedures were followed and to verify that no client account was systematically disadvantaged by the allocation. The pre-allocated amounts on the Trade Tickets may differ from the amounts actually allocated in situations where Coastal does not receive a full allocation. In such situations, the Trade Tickets should not be revised to reflect a partial fill of the trade. If for any reason aggregated trades must be revised (other than a partial fill) after the trades are executed and allocated:

- the Trade Ticket applicable to such trades will be revised;
- an explanation for the revision will be included on the Trade Ticket;
- the word "Revised" will be placed on the Trade Ticket; and
- the Adviser Representative will request the Chief Investment Officer or Chief Compliance Officer to authorize the revision by signing the Trade Ticket.

### **6.3.10 Proprietary Trades**

When executing securities trades in proprietary firm accounts, Coastal will be especially careful to make sure that such trading activity is:

- Not favoring proprietary accounts over client accounts when allocating investment opportunities;
- Not conducted in advance of client transactions in similar securities;
- Not in opposition to recommendations made for client securities transactions;
- Properly disclosed to clients on Coastal's Part 2A (brochure);
- Not based upon inside information or research analyst report that Coastal prepared;
- Not involving any securities currently maintained on Coastal's Restricted List or Watch List; and
- Not otherwise in violation of applicable laws or fiduciary duties owed to clients.

### **6.3.11 Trade Errors**

When an Adviser Representative or other employee of Coastal discovers a trade error, the Adviser or other employee shall report the error to the Home Office, and the Home Office Operations department shall be responsible for taking immediate corrective action.

#### **6.3.11.1 Trade Error Procedures**

It is the policy of Coastal to exercise the utmost care when handling client orders and correcting orders when trade errors occur. Examples of trade errors include "fat finger" trades, selecting the wrong security, purchasing instead of selling a security (or vice versa), inputting the wrong ticker symbol or violating a client's investment restrictions or guidelines. When a trade error is discovered, the following procedures will be implemented:

1. The Adviser Representative or other employee of Coastal who discovered the error will immediately report the error to the Home Office by completing and submitting the Coastal 'Cancel/Rebill Request' form.
2. The employee who discovered the error will not attempt to rectify trading errors by himself or herself.

3. Coastal shall establish a separate error account at the bank or broker-dealer involved with the error that will be used for error corrections.
4. Corrective action will be taken by designated operations personnel in the home office in consultation with a designated supervisor. Where necessary and appropriate, the Firm will establish an account pursuant to the Trade Error account procedures and arrange for the reversing of the erroneous trade into or out of the trade error account, or when a security is erroneously sold from a client's account, the security will be purchased in the trade error account.
5. The party responsible for the error will bear the cost of correcting the error.
6. Net Losses (net of offsetting gains) in client accounts caused by trades done in error will be reversed.
7. Net Gains (net of offsetting losses) in client accounts caused by trades done in error that are discovered after settlement generally will be credited to the affected clients' accounts.
8. When appropriate, client accounts that experienced a post-settlement loss will be credited with a competitive rate of return and calculated from the date of the error.
9. The Firm retains a file in the Home Office of all written 'Cancel/Re-Bill' request forms documenting the occurrence and correction of trade errors.
10. Periodically, the Chief Compliance Officer or designee shall review the file documenting trade errors to verify that the trade error was corrected fairly and on a timely basis.

These procedures are intended to provide general guidance. Exceptions may be warranted under certain circumstances, provided such exceptions are approved by senior management of Coastal.

### **6.3.11.2 Trade Error Account**

Coastal, when appropriate, will set up a trade error account at a broker-dealer in the name of Coastal and utilize such account to correct the trade error in the following manner:

- When a security is erroneously sold from a client's account, the security will be purchased in the error account;
- Such account will be used solely for the correction of errors;
- Clients will be compensated for any losses resulting from an error out of the error account; and
- When necessary, Coastal shall contribute assets to the error account.

## **6.4 Form ADV Disclosure**

The Chief Compliance Officer will ensure that Coastal discloses in its Brochure (Part 2A), where applicable, its practice of engaging in:

- agency transactions;
- agency cross transactions;
- principal transactions;
- trade aggregation; and
- trade allocation.

## **6.5 Books and Records**

[Investment Advisers Act of 1940 Rule 204-2(a)(7), 204-2(b)(1), 204-2(b)(2), 204-2(b)(3), 204-2(b)(4), 204-2(c)(1)(i) and 204-2(c)(1)(ii)]

Coastal will maintain in its "Trades" books and records:

- a memorandum of each order (also called a "trade ticket") given by Coastal for the purchase or sale of any security, of any instruction received by Coastal by the client concerning the purchase, sale, receipt

- or delivery of a particular security, and of any modification or cancellation of any such order or instruction (Rule 204-2(a)(3));
- copies of all confirmations that relate to securities transactions of clients;
- originals of all the following written communications received and copies of all written communications sent by Coastal relating to:
  - investment recommendations made or proposed to be made, and any advice given or proposed to be given;
  - receipt, disbursement or delivery of funds or securities; and
  - placement or execution of securities orders (Rule 204-2(a)(7));
- all documents related to account reconciliation and all reports on discrepancies and their resolutions;
- records showing client positions and reconciliation of such positions with brokerage and other statements;
- records showing separately for each such client the securities purchased and sold, and the date, amount and price of each such purchase and sale (Rule 204-2(c)(1)(i));
- for each security in which any such client has a current position, information from which Coastal can promptly furnish the name of each such client, and the current amount or interest of such client (Rule 204-2(c)(1)(ii));
- all documents related to trade errors and any compliance matter related to a failure to follow a client's instructions or restrictions, including actions taken to resolve the matter, a record of any payments, reimbursements, or rebates made to a client by Coastal due to an investment loss, administrative error or other error;
- records related to the settlement process; and
- all documents that relate to the aggregation of trades. With respect to each aggregated trade, Coastal will reflect in its books and records for each client account, the orders of those trades that are aggregated and the securities held by, and bought or sold for that account.

Coastal shall maintain in electronic format a journal (also called a trade blotter) containing the following information about securities purchased and sold for clients:

- account ID - the unique identifier for the account;
- account description - a short description of the account;
- trade date - use standard internet date/time formats ( e.g., 2014-03-19);
- trade time - time in 24-hour format with the highest precision available ( e.g., 13:42:3.365);
- settlement date - use standard internet date/time formats ( e.g., 2014-03-19);
- trade direction - abbreviation codes ( e.g., to buy long, "BL");
- trading venue - where the trade occurred ( e.g., NYSE);
- quantity;
- price - the price at which the trade was executed ( e.g., 87.55);
- notional - the total notional amount paid for the transactions;
- currency - the currency in which the trade price is denominated ( e.g., USD);
- commission - if any;
- fee - if any;
- net amount - total amount paid for the trade including fees and commissions;
- broker - the name of the broker associated with the trade;
- security identifier - the unique identifier of the security;
- symbol - the exchange's symbol for the security traded;
- symbol description - description of the security ( e.g., Coca Cola);
- CUSIP - the CUSIP of the security traded, if applicable;
- ISIN - the ISIN of the security traded, if applicable;
- SEDOL - the SEDOL of the security traded;
- instrument type - type of instrument ( e.g., equity);
- contract size/multiplier - the effective multiplier to derive the correct notional;
- adjustment factor - if an equity security, enter split adjustment factor; if a fixed-income security, enter amortization factor if applied;
- Bloomberg ticker;
- Reuter ticker; and

- root ticker.

Coastal will maintain in its books and records the following information for each agency cross trade:

- the name of each participating client;
- the issuer and class of securities;
- the date and time of the trade;
- the number of shares and dollar amount; and
- the price and basis for, and appropriateness of, the price.

If Coastal has custody or possession of securities or funds of any client, Coastal shall make and keep true, accurate and current the following custody books and records relating to its investment advisory business:

- a journal or other record showing all purchases, sales, receipts and deliveries of securities (including certificate numbers) for such accounts and all other debits and credits to such accounts (Rule 204-2(b)(1));
- a separate ledger account for each such client showing all purchases, sales, receipts and deliveries of securities, the date and price of each purchase and sale, and all debits and credits (Rule 204-2(b)(2));
- copies of confirmations of all transactions effected by or for the account of any such client (Rule 204-2(b)(3)); and
- a record for each security in which any such client has a position, which record shall show the name of each such client having any interest in such security, the amount or interest of each such client, and the location of each such security (Rule 204-2(b)(4)).

For each trade error, Coastal shall maintain the following information:

- Date and time of trade error
- Employee placing the trade (trader)
- Security
- Portfolio manager for the account
- Account number (if any)
- Description of error
- Description of correction of action
- Estimated financial impact on client
- Buy/sell ticket
- Signature/initial of investment personnel responsible for correcting error

# 7 BROKERAGE

## Introduction

[SEC Securities Exchange Act of 1934 Section 28(e)]

An investment adviser has the fiduciary duty to engage in brokerage practices that are in the best interests of its clients. The three areas of brokerage that should receive the greatest attention from an adviser are: (1) best execution; (2) soft dollars; and (3) directed brokerage arrangements.

### Best Execution

An investment adviser has a fiduciary duty to achieve best execution when it places trades with broker-dealers. Failure by an investment adviser to adhere to its best execution duties when selecting a broker-dealer may have significant regulatory and other consequences. "Best execution" is not defined in the securities laws. Nevertheless, a court or the SEC likely will find that an investment adviser achieves best execution for a given client trade when the trade is executed so that the client's total costs or proceeds in the transaction are the most favorable under the circumstances. In selecting a broker-dealer for a particular transaction, the adviser should consider the commission rate to be charged by the broker-dealer. Where multiple competing markets exist for listed stocks, an adviser should make sure that the security is executed on the best market (or by the best market maker). Best execution encompasses numerous other factors, including the broker-dealer's execution services, research provided, and responsiveness of the broker-dealer.

### Soft Dollars

An investment adviser can enter into an arrangement with a broker-dealer whereby it receives free research in exchange for the placement of a specified amount of client trades. This is called a "soft dollar arrangement." Client commission dollars, instead of "hard" dollars, pay for research, which is used by the investment adviser for that client's account or other clients' accounts. The broker-dealer may provide research directly or obtain the research from third party vendors.

Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") permits an investment adviser to place a client trade with a broker-dealer that does not offer the lowest commission for trade and that provides the investment adviser with research provided certain conditions are met, including that the payment is reasonable in terms of the value of the services to be obtained through the soft dollars. Such an arrangement presents an obvious conflict of interest on the part of the investment adviser. The investment adviser has the incentive to direct client trades to the broker-dealer that will provide it with the most research. However, if the investment adviser meets the requirements of Section 28(e), it will not be deemed to breach its fiduciary duty to a client even if the client pays a commission higher than the lowest commission available to obtain the research. This is called "paying up" for the research.

### Directed Brokerage

In a "directed brokerage" arrangement, a client directs the investment adviser to send commission business to particular broker-dealers that have agreed to provide services to the client, pay certain client expenses, or make cash rebates. Section 28(e) does not apply to directed brokerage arrangements.

A directed brokerage arrangement does not create a conflict of interest between the investment adviser and the client because the client, not the investment adviser, is receiving the services.

## 7.1 Compliance Reference Chart

[SEC Securities Exchange Act of 1934 Section 28(e)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer</li> </ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"> <li>• Investments</li> <li>• Legal</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Each time Coastal enters into a soft dollar or directed brokerage arrangement</li> <li>• Annually</li> </ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"> <li>• Section 28(e) of the Securities Exchange Act of 1934</li> </ul>
<b>Records</b>	<ul style="list-style-type: none"> <li>• Various brokerage records</li> <li>• Documents related to soft dollar and directed brokerage arrangements</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Brokerage Procedures annually.</li> </ul>

## 7.2 Policy

It is Coastal's policy to achieve best execution when it places orders for client trades with broker-dealers and to enter into soft dollar and directed brokerage arrangements only if such arrangements comply with applicable securities laws and regulatory interpretations of such laws.

## 7.3 Procedures

### 7.3.1 Best Execution Procedures

#### 7.3.1.1 Selection of Broker-Dealers

Coastal, as a fiduciary to its advisory clients, will endeavor to seek best execution when placing trades for clients. In attempting to achieve best execution, Coastal will not necessarily seek to obtain the lowest commission but rather will seek the best overall qualitative execution. The firm substantially utilizes its affiliate, Coastal Equities, Inc., to execute trades and custody accounts through its clearing firm. Some advisers, being independent contractors, utilize other approved broker-dealers to execute trades and custody accounts. The following steps will be taken when creating a list of broker-dealers that may execute client trades (the "Approved List of Broker-Dealers") and placing and re-placing a particular broker-dealer on the List:

- Coastal may consider the following when an adviser seeks approval of a broker-dealer:
  - input from portfolio managers, traders and others;
  - review of broker-dealer customer fees for trades and account fees;
  - if available, information about the commissions paid over the previous quarters, including to the extent whether the commissions exceed the firm's acceptable range and the circumstances that caused the deviation; and
  - statistical and other information from consultants and vendors on the execution capabilities of broker-dealers.



Coastal will create and from time to time modify the Approved Broker-Dealer List to reflect conclusions reached at its regular review of brokerage pursuant to the procedures in the "Reviewing Prices and Monitoring Execution" section, in an effort to project annual trading activity and respective compensation for each broker-dealer on the Approved Broker-Dealers List.

Coastal has established the following general criteria to determine whether a given broker-dealer will be placed on its Approved Broker-Dealer List:

- financial stability of the broker-dealer;
- size and types of transactions the broker-dealer is capable of handling;
- ability to process challenging trades;
- research capabilities; and
- ability to provide services in addition to execution services that enhance Coastal's portfolio management capabilities.

### **7.3.1.2 Factors Considered When Placing a Trade**

An Adviser Representative or trader may execute a client trade with a particular broker-dealer only if that broker-dealer appears on the Approved List of Broker-Dealers, unless he or she determines and documents the determination that using a non-approved broker-dealer is in the client's best interest.

### **7.3.1.3 Reviewing Prices and Monitoring Execution**

[SEC Securities Exchange Act of 1934 Rule 11Ac1-6]

The trader or Adviser Representative who places the trade has the primary responsibility for monitoring the quality of trade execution. Trades made on behalf of clients will be placed either through an introducing broker, who in turn will route the trade to a clearing broker, or directly with a clearing broker.

Rule 11Ac1-6 under the Securities Exchange Act of 1934 requires broker-dealers to make publicly available quarterly reports on their order routing practices. The report provides information on the routing of "non-directed orders" - any order that the customer has not specifically instructed to be routed to a particular venue for execution. The report is divided into four sections:

- securities listed on the New York Stock Exchange,
- securities listed on the NASDAQ Stock Market,
- securities listed on the American Stock Exchange or regional exchanges, and
- exchange-listed options.

For each section, this report identifies the venues most often selected by the broker-dealer, sets forth the percentage of various types of orders routed to the venues, and discusses the material aspects of broker-dealer's relationship with the venues.

Coastal will regularly monitor and evaluate clearing broker-dealer performance and execution quality reviewing, at a minimum, the following information:

- Rule 11Ac1-6 trading reports;
- Other broker-dealer reports, including, but is not limited to, the following data:
  - commission summaries,
  - transaction reports, and
  - failed trades;
- Feedback from employees having substantive contact with the broker-dealer, if any; and
- Information generated by investment personnel who make post-trade evaluation, if any.

When performing this review for a particular broker-dealer, Coastal will consider, at a minimum, the following factors:

- Average commission rate;
- The type and quality of research provided by the broker-dealer;
- Reasons for initially selecting the broker-dealer;
- Any trade errors involving the broker-dealer;
- Non-execution services provided by the broker-dealer;
- The quality of the execution services (including speed of execution, handling of large or difficult orders and dependability);
- Conflicts of interest, if any, raised by the use of the broker-dealer; and
- Any irregularities associated with the trades executed by the broker-dealer.

#### **7.3.1.4 Conflicts of Interest**

When selecting broker-dealers to execute client trades, Coastal will be sensitive to the following conflicts of interest, and where necessary, shall address such conflicts by disclosure, client consent or other appropriate action:

- The receipt of soft dollars from a broker-dealer;
- Obtaining client referrals from a broker-dealer; and
- Receiving IPO allocations from a broker-dealer.

#### **7.3.1.5 Best Execution**

The referral of clients is not the only reason trades are placed with a particular broker-dealer. Rather, Coastal considers all best execution factors described in this Manual and client referrals are only one of many factors considered in the selection of broker-dealers to execute client portfolio transactions.

#### **7.3.1.6 Disclosure**

Coastal discloses to its clients in Form ADVII:

- The decision to use brokerage commissions to reward broker-dealers for client referrals poses significant conflicts;
- Brokerage-client referral arrangements may have an adverse impact on best execution of client transactions; and
- Receipt of brokerage commissions by a broker-dealer for referring clients creates an incentive for the broker-dealer to recommend investment advisers that best compensate the broker-dealer rather than advisers that meet the client's investment or financial planning needs.

#### **7.3.1.7 Advisory Contract**

Coastal discloses in its advisory contract with each client that it may enter into brokerage-referral arrangements.

### **7.3.2 Parking**

"Parking" or "Pre-Arranged Trading" is the practice of selling shares to a third-party with the understanding that the original owner will buy them back after a short period of time. Illicit parking may be done for a variety of reasons including avoiding disclosure of a person's position in a stock on a required regulatory report.

Brokerage firms and their registered representatives may not engage in illegal parking (e.g., to inflate their net capital to meet regulatory requirements).

Coastal does not maintain proprietary positions or accounts. In the event that Coastal does so in the future, Coastal will periodically monitor client accounts and transactions for indications of parking. When conducting such monitoring, Coastal will look for:

- Patterns of trades by a client that do not appear to have any investment reason;
- Frequent sales to, followed by purchases back, from the same party;
- Allocating trades in a manner that advantages some clients while disadvantaging other clients; and
- High number of trades near month-end or other reporting periods.

## 7.4 Form ADV Disclosure

Coastal will provide sufficient disclosure in its Brochure (Part 2A) so that clients and potential clients can understand its brokerage policies and procedures.

Coastal will fully disclose in the Firm's Brochure:

- whether it has "brokerage" discretion for client accounts; i.e., the ability to determine which broker-dealer executes client trades and the commission rates to be paid for such trades (as required by Part 2A);
- the factors considered in selecting broker-dealers and determining the reasonableness of their commissions (as required by Part 2A);
- Coastal's soft dollar practices in a manner so that clients understand its policies and procedures;
- the types of research products and services received from broker-dealers that execute client trades;
- the types of non-research products and services received from broker-dealers that execute client trades;
- use of an affiliated broker-dealer on an agency or principal basis;
- client-directed brokerage arrangements and the extent that they may expose non-directed brokerage clients to less optimal trade executions and/or higher trading costs;
- interest in, or material business relationships with, market makers or market centers; and
- use of client brokerage to pay for client referrals or other arrangements that promote Coastal's business.

Periodically, the Chief Compliance Officer will review the Firm's Brochure disclosure about its best execution, soft dollar and directed brokerage practices in order to ensure consistency with actual practice. If the current disclosure is not adequate, the Chief Compliance Officer will make appropriate changes in the disclosure.

## 7.5 Books and Records

In its books and records, Coastal will maintain records regarding brokerage transactions in client accounts, soft dollar arrangements and directed brokerage arrangements.

To the extent it deems necessary, Coastal will maintain in the Brokerage section in its books and records:

1. the total amount of brokerage commissions generated for each client in connection with Coastal's soft dollar arrangements;

2. an itemized description of what products and services Coastal obtained through soft dollar arrangements;
3. the identity of all broker-dealers providing research products and services;
4. a written description of all oral and written agreements obligating Coastal to generate a specific amount of brokerage for a particular broker-dealer;
5. each written agreement with a broker-dealer obligating Coastal to place client trades with such broker-dealer in return for research;
6. the basis for the determination to enter into each soft dollar arrangement, including that the products and services to be provided are research, that the research primarily benefits the clients, and the basis for allocating mixed-used products and services in a particular way;
7. a written description of how the soft dollar products and services assisted Coastal in its investment management functions;
8. documentation generated by its broker-dealer selection process, including the information received and evaluated and conclusions reached and decisions made;
9. documents related to each client's directed brokerage arrangement; and
10. records that document the process used to select broker-dealers and to oversee broker-dealer performance on an aggregate trading basis, including:
  - o records that demonstrate how it considered relevant factors during the broker-dealer selection process,
  - o the broker-dealer characteristics and other factors believed necessary to deliver quality executions to clients,
  - o the post-trade analysis of execution quality and any steps taken to improve the process, and
  - o records that support negotiated broker-dealer commissions or spreads.

# 8 CUSTODY

## Introduction

[Investment Advisers Act of 1940 Rule 206(4)-2]

An adviser that has custody of client assets must implement a set of controls designed to protect those assets from being lost or misappropriated. The SEC deems an investment adviser to have "custody" when it (1) directly or indirectly holds client funds or securities, (2) has any authority to possess them, or (3) has access to client funds or assets.

Because of this broad definition, many investment advisers are deemed to have custody of client assets. Advisers generally can meet the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940, the SEC's custody rule, by maintaining client assets with "qualified custodians" (e.g., banks and broker-dealers).

On December 30, 2009, the SEC adopted far-reaching amendments to Rule 206(4)-2 under the Advisers Act in response to the Madoff scandal. The newly amended custody rule requires, among other things, certain investment advisers that have custody of client funds or securities to undergo an annual surprise examination by an independent public accountant to verify client funds and securities. In addition, unless client accounts are maintained by an independent qualified custodian (i.e., a custodian other than the adviser or a related person), the adviser or related person must obtain a written report from an independent public accountant that includes an opinion regarding the qualified custodian's controls relating to custody of client assets. Advisers also must verify that their qualified custodians send account statements to clients.

## 8.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Rule 206(4)-2]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Investments</li><li>• Accounting</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Determine whether Coastal has custody of any accounts</li><li>• Review identified accounts</li><li>• Arrange for Surprise Examination of identified accounts</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• At least quarterly to verify clients' assets are held by the bank or broker-dealer custodian and client account statements are accurate</li><li>• Periodically when adviser must arrange for a surprise examination, internal control report or audited financial statements of a client</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Rule 206(4)-2 under the Investment Advisers Act of 1940</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• Quarterly client account statements sent by banks or broker-dealer custodian</li><li>• Work papers demonstrating reconciliation of accounts</li><li>• Surprise exam related records</li></ul>

	<ul style="list-style-type: none"> <li>• Internal control reports</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Custody Procedures annually</li> </ul>

### 8.1.1 Determination of Whether Coastal has Custody of Accounts

Compliance will determine whether Coastal is deemed to have 'custody' of client funds or securities pursuant to the Advisers Act. In such case, Compliance will arrange for an annual surprise examination in accord with the Advisers Act.

## 8.2 Policy

It is Coastal's policy to not maintain custody of client's assets. Coastal is obligated to determine whether or not it has custody of each client's assets and, if it has custody of a client's assets, Coastal will arrange for the safekeeping of the assets of each such client with a broker-dealer or bank or make other arrangements permissible under SEC rules.

## 8.3 Procedures

Coastal will take steps to ensure that all assets of clients are maintained in a manner designed to safeguard them from theft, misappropriation or other loss.

### 8.3.1 Custody Determination

[Investment Advisers Act of 1940 Rule 206(4)-2]

Rule 206(4)-2, the custody rule under the Advisers Act, only applies to investment advisers that have "custody" of client assets. Consequently, the initial step taken by an adviser with respect to its custody procedures should be to determine whether Coastal has "custody" for purposes of the Advisers Act.

#### 8.3.1.1 Custody Status

[Investment Advisers Act of 1940 Rule 206(4)-2]

For each new client: the financial advisor's supervisor, prior to approving account opening, will determine whether accepting the client may cause custody of any assets of such client under Rule 206(4)-2 under the Advisers Act. Upon such a determination, the supervisor will escalate the prospective account to management of the firm for a decision as to whether the firm will accept the client.

For Existing Clients: Periodically, the Chief Compliance Officer will review the account list of advisory client brokerage accounts which indicate a full power of attorney. For such accounts, the CCO shall confirm whether a firm employee or related person is the designated attorney-in-fact and will evidence his review by maintaining a "Custody Review Log". Accounts which cause the firm to have custody will be reported to management, and a determination will be made as to whether a surprise audit is required.

### 8.3.1.2 Client Assets

[Investment Advisers Act of 1940 Rule 206(4)-2]

For purposes of these Custody Procedures, "client assets" shall mean funds and securities owned by the client. These procedures (unless otherwise noted) and Rule 206(4)-2 do not apply to client assets that are not funds or securities.

### 8.3.1.3 Qualified Custodian

[Investment Advisers Act of 1940 Section 202(a)(2); Federal Deposit Insurance Act Section 3(b)(1)]

Coastal shall deem an entity to be a "Qualified Custodian" only if it falls within one of the following categories:

- Banks (as defined in Section 202(a)(2) of the Investment Advisers Act of 1940);
- Broker-Dealers that are registered with the SEC;
- Savings Associations (as defined in Section 3(b)(1) of the Federal Deposit Insurance Act);
- Futures Commissions Merchants; and
- Foreign Financial Institutions (provided that Coastal has a reasonable basis for believing that the foreign financial institution will provide a level of safety for client assets similar to that which would be provided by a U.S. "qualified custodian").

### 8.3.1.4 Arrangements or Circumstances Constituting Custody

Coastal deems the following arrangements or circumstances involving Coastal or its Related Persons (as defined herein) acting in connection with advisory services to clients to constitute "custody" of client assets:

- Holding client assets;
- Holding certificated securities (not privately issued certificated securities under certain conditions) owned by the client in a safe deposit box controlled by the adviser at a bank;
- Authority (through a general power of attorney or otherwise) to obtain possession of, or withdraw, client assets;
- A custodial agreement that grants Coastal the right to receive money, securities, and property of every kind and dispose of same;
- A custodial agreement under which a custodian may rely on Coastal's instructions without any direction from the client (e.g., a clause that states "Client hereby ratifies and confirms any and all transactions with the custodian made by the Adviser for the Client's account.");
- A custodial agreement that provides authorization for Coastal to instruct the Qualified Custodian to disburse cash from the client's cash account for any purpose;
- Instructing the Qualified Custodian to debit the client's account for advisory fees after Coastal makes the fee calculation;
- Endorsing a client check made payable to Coastal and forwarding the endorsed check to the Qualified Custodian;
- Providing bill-paying services to the client and in connection therewith being authorized to withdraw funds and securities from a client's account;
- Signatory and check-writing authority for client accounts allowing Coastal to deduct Coastal's advisory or other fee from a client account;
- Authority to write checks on behalf of a client;
- Acting in any capacity that gives Coastal the authority to withdraw funds or securities from the client's account;
- Acting in the capacity as a general partner (or managing member) of a limited partnership (or limited liability company) and having the authority to withdraw funds or securities from, or otherwise access, the limited partnership's (or limited liability company's) account;

- Acting as trustee (including an employee of Coastal) of a trust for the benefit of a client, except where the trustee appointment is as a result of a family or personal relationship with the grantor or beneficiary;
- Acting as an executor (including an employee of Coastal) to an estate for the benefit of a client, except where the executor appointment is as a result of a family or personal relationship with the decedent or beneficiary;
- Commingling client, Firm and employee assets in a single account; and
- Having client passwords and user names allowing online access to client accounts that allows without restriction Coastal to withdraw funds or securities or transfer them to an account not in the client's name at the qualified custodian.

### **8.3.1.5 Arrangements or Circumstances Not Constituting Custody**

Coastal deems the following arrangements or circumstances involving Coastal or its Related Persons to not constitute custody:

- Authority to place a trade for a client's account and to instruct the broker, bank or other custodian to deduct funds from the client's account in connection with such trade;
- Limited authority to transfer client assets between client accounts maintained at a Qualified Custodian, provided the client has authorized Coastal in writing to make such transfers and a copy of such authorization is provided to the Qualified Custodian, specifying the client accounts maintained with Qualified Custodians;
- Custody of client assets that are not funds or securities;
- The authority to instruct the Qualified Custodian maintaining a client's account to remit the funds or securities from the account to the same client at his or her address of record as having custody if (1) the client has granted such authority to Coastal in writing and a copy of that authorization is provided to the Qualified Custodian, and (2) Coastal has neither the authority to open an account on behalf of the client nor the authority to designate or change the client's address of record with the Qualified Custodian;
- When a related person of Coastal is a natural person and is both the legal and beneficial owner (e.g., he or she is not the trustee of another person) of the account and the beneficial owner for purposes of the securities laws, this related person's access to his or her own account will not impute custody to the adviser; and
- When a client instructs the Qualified Custodian to debit his or her account for advisory fees and the Qualified Custodian makes all fee calculations based on the advisory contract, provided that the Qualified Custodian is not a related person of Coastal.

### **8.3.2 Procedures for Types of Custody Arrangements**

Coastal shall only be subject to these Custody Procedures if it shall have custody of any funds and securities (called "assets") of clients. If Coastal has custody of client assets, it shall maintain client assets in accordance with one or more of the following procedures:

- Unaffiliated Custody Arrangements;
- Self-Custody Arrangements;
- Related Person Custody Arrangements;
- Hedge Fund Custody Arrangements;
- Mutual Fund Shares Custody Arrangements;
- Privately Placed Securities Custody Arrangements;
- Constructive Custody; and
- Inadvertent Receipt of and Temporary Custody of Client Assets.

### **8.3.3 Unaffiliated Custody Arrangements**



If Coastal maintains client assets with a custodian that is not affiliated with Coastal or affiliates of Coastal, it will avoid being subject to certain requirements under Rule 206(4)-2 applicable to affiliated custodian arrangements.

### **8.3.3.1 Unaffiliated Custody Procedures**

When Coastal maintains client assets with an unaffiliated Qualified Custodian, the Chief Compliance Officer will:

- Verify that the unaffiliated firm is a Qualified Custodian;
- Arrange for Coastal to enter into a contract with the unaffiliated Qualified Custodian;
- Require the Qualified Custodian to maintain client funds and securities:
  - In a separate account for each client under that client's name; or
  - In accounts that contain only Coastal's client funds and securities and under the name of the Firm as agent or trustee for the clients;
- Notify each client in writing of the name and address of the Qualified Custodian, and the manner in which the funds or securities are maintained, promptly when the account is opened and following any changes to this information; and
- Require the Qualified Custodian to transmit account statements to clients in accordance with the Account Statements procedures set forth herein.

### **8.3.3.2 Fee Deduction Only**

When Coastal maintains client assets at an unaffiliated Qualified Custodian, it will be deemed to have custody of client assets if it has the authority to deduct its advisory fees from client assets maintained at the unaffiliated Qualified Custodian. Nevertheless, the unaffiliated Qualified Custodian arrangement will not be subject to the:

- Surprise Examination requirement; and
- Internal Control Report requirement.

### **8.3.4 Self-Custody Arrangement**

When Coastal maintains custody of client assets, the Chief Compliance Officer will:

- Verify that Coastal is a Qualified Custodian;
- Verify Coastal maintains client funds and securities:
  - In a separate account for each client under that client's name; or
  - In accounts that contain only Coastal's client funds and securities and under the name of the Firm as agent or trustee for the clients;
- Notify each client in writing of the name and address of the Firm, and the manner in which the funds or securities are maintained, promptly when the account is opened and following any changes to this information;
- Transmit account statements to clients in accordance with the Account Statements procedures set forth herein;
- Arrange for a Surprise Examination of Coastal in accordance with the Surprise Examinations procedures set forth herein; and
- Arrange for an Independent Public Accountant to prepare a written Internal Control Report in accordance with the Internal Control Reports procedures set forth herein.

### **8.3.5 Related Person Custody Arrangement**

If Coastal itself maintains client assets or it maintains client assets with a custodian that is affiliated with Coastal, it will be potentially subject to additional requirements under Rule 206(4)-2 including surprise examination and internal control report requirements.

### **8.3.5.1 Related Person Custody Procedures**

When Coastal maintains client assets with a Related Person of Coastal, the Chief Compliance Officer will:

- Verify that the Related Person is a Qualified Custodian;
- Verify the Related Person maintains client funds and securities:
  - In a separate account for each client under that client's name; or
  - In accounts that contain only Coastal's client funds and securities and under the name of Coastal as agent or trustee for the clients;
- Notify each client in writing of the name and address of the Related Person, and the manner in which the funds or securities are maintained, promptly when the account is opened and following any changes to this information;
- Require the Related Person to transmit account statements to clients in accordance with the Account Statements procedures set forth herein;
- Arrange for a Surprise Examination of the Related Person in accordance with the Surprise Examinations procedures set forth herein unless the Related Person is Operationally Independent from Coastal; and
- Arrange for an Independent Public Accountant to prepare a written Internal Control Report in accordance with the Internal Control Reports procedures set forth herein.

### **8.3.5.2 Definition of Related Person**

"Related Person" means:

- any person, directly or indirectly, controlling or controlled by Coastal; or
- any person under the common control with Coastal.

### **8.3.5.3 Operationally Independent**

A Related Person is "operationally independent" of Coastal if the following conditions are met:

- Client assets maintained by the Related Person are not subject to Coastal's creditors;
- Firm personnel do not have custody or possession of, or direct or indirect access to client assets that are maintained at the Related Person;
- Firm personnel and Related Person personnel who have access to client assets are not under common supervision;
- Firm personnel do not hold any position with the Related Person; and
- Firm personnel do not share premises with the Related Person.

### **8.3.5.4 Affiliated Sub-Adviser Custody Arrangements**

*Investment Adviser Association (pub. avail. Apr. 25, 2016)*

If Coastal is a sub-adviser or is affiliated with a sub-adviser ("Sub-Adviser") in an arrangement where sub-advisory services are being provided pursuant to a program in which a related person of the Sub-Adviser is the

qualified custodian for the account assets, and such related person is also the primary investment adviser, and the Sub-Adviser is deemed to have custody solely by virtue of its affiliate serving as qualified custodian, the Sub-Adviser will not be subject to the surprise audit and internal audit requirements of Rule 206(4)-2 under the Advisers Act if the following conditions are met:

1. the sole basis for the Sub-Adviser having custody is its affiliation with the qualified custodian and the primary adviser;
2. the primary adviser will comply with Rule 206(4)-2, including by having client funds and securities in the investment advisory program verified by a surprise examination conducted by an independent public accountant registered with the Public Company Accounting Oversight Board ("PCAOB") pursuant to an agreement entered into by the primary adviser;
3. the Sub-Adviser does not (i) hold client funds or securities itself; (ii) have authority to obtain possession of clients' funds or securities; or (iii) have authority to deduct fees from clients' accounts; and
4. the Sub-Adviser will continue to be required to obtain from the primary adviser or qualified custodian annually a written internal control report prepared by an independent public accountant registered with and subject to regular inspection by the PCAOB as required by Rule 206(4)-2(a)(6).

### 8.3.6 Hedge Fund Custody Arrangement

[Investment Advisers Act of 1940 Rule 206(4)-2]

When Coastal acts as a general partner of a limited partnership or managing member of a limited liability company (or has a comparable position) that is a hedge fund, it will be deemed to have custody of that hedge fund's assets. In such cases, Coastal will elect either to follow the (i) Audited Financial Statements Approach; or (ii) the Account Statements/Internal Control Report/Surprise Examination Approach to satisfy the custody requirements of Rule 206(4)-2.

#### 8.3.6.1 Audited Financial Statements Approach

[Investment Advisers Act of 1940 Rule 206(4)-2 and 206(4)-2(b)(4)]

The Chief Compliance Officer will arrange for:

- each hedge fund client to have its financial statements audited in accordance with U.S. GAAP and U.S. GAAS at least annually by an Independent Public Accountant (as defined herein) registered with and subject to regular inspection by the PCAOB within 120 days of the hedge fund client's fiscal year-end (if it is a fund-of-funds, the deadline is 180 days as explained herein);
- the dissemination of the audited financial statements within 10 business days of receipt of such audited financial statements to each investor in each hedge fund client (merely an offer to deliver the financial statements to each investor is not sufficient); and
- the preparation of a liquidation audit of the financial statements prepared in accordance with U.S. GAAP and U.S. GAAS of any hedge fund client that is liquidated during its fiscal year (other than liquidation on the last day of its fiscal year) and the prompt distribution of such audited financial statements to each investor in the liquidated hedge fund client.

In the National Exam Program Risk Alert entitled "Significant Deficiencies Involving Adviser Custody and Safety of Client Assets," dated March 4, 2013, the SEC staff stated that audited financial statements would not be deemed to be prepared in accordance with GAAP if:

- in such financial statements, organizational expenses were improperly amortized rather than expensed as incurred;
- the audit of such financial statements resulted in a qualified audit opinion;
- such financial statements were prepared on a federal income tax basis; and

- the adviser could not substantiate fair valuations and the auditor could not issue an unqualified opinion on the financial statements.

Hedge funds organized outside the U.S. or that have a general partner with its principal place of business outside the U.S. may have their financial statements prepared in accordance with accounting standards other than U.S. GAAP, provided they contain information substantially similar to statements prepared in accordance with U.S. GAAP. Any material differences with U.S. GAAP must be reconciled. The required audit of those financial statements must be by an independent public accountant and meet with requirements of US GAAS.

In "Staff Responses to Questions About the Custody Rule" (May 20, 2010), the SEC stated that it would not recommend enforcement action for a violation of Rule 206(4)-2 against an adviser that is relying on Rule 206(4)-2(b)(4) and that reasonably believed that the pool's audited financial statements would be distributed within the 120-day deadline, but failed to have them distributed in time under certain unforeseeable circumstances.

### **8.3.6.2 Account Statements/Internal Control Report/Surprise Examination Approach**

If Coastal elects not to obtain audited financial statements for a hedge fund client in the manner described above, the Chief Compliance Officer will arrange for:

- account statements to be sent to each investor in the hedge fund in accordance with the Account Statements procedures set forth herein, and such account statements shall show the transactions and holdings of the hedge fund;
- a surprise examination relating to the custody of the hedge fund client assets in accordance with the Surprise Examinations procedures set forth herein; and
- the preparation of an Internal Control Report relating to the custody of the hedge fund client assets in accordance with the Internal Control Reports procedures set forth herein (unless the executed subscription agreements of the hedge fund investors are maintained at an unaffiliated Qualified Custodian).

### **8.3.6.3 Special Purpose Vehicles**

From time to time, Coastal when it manages a hedge fund may form a special purpose vehicle ("SPV") that structurally is wholly-owned by the hedge fund client to facilitate the investments of the hedge fund.

#### **8.3.6.3.1 SPV Custody Procedures**

With respect to SPVs, Coastal either:

- Will subject such SPVs to the full procedures in this section, including obtaining audited financial statements for the SPV; or
- Deem the assets of the SPVs to be assets of the applicable hedge fund clients and subject such assets to the procedures set forth herein.

#### **8.3.6.3.2 SPV Underlying Investors**

When required to send audited financial statements or account statements to investors, the Chief Compliance Officer shall arrange for such statements to be sent to the underlying investors of a hedge fund client's SPV even if such investors do not directly invest in the hedge fund client.

### **8.3.6.4 Fund of Funds**

If a hedge fund client ("Upper-Tier Hedge Fund") managed by Coastal invests its assets in unaffiliated lower-tier hedge funds ("Lower-Tier Hedge Funds"), Coastal may deliver the Upper-Tier Hedge Fund's financial statements to investors within 180 days of the Upper-Tier Hedge Fund's fiscal year-end.

For purposes of this requirement, an "Upper-Tier Hedge Fund" is a hedge fund that invests at least 10% of its total assets in other hedge funds that are not advised by a "related person" of the Upper-Tier Hedge Fund, Coastal or the Upper-Tier Fund's general partner. For purposes of these procedures, a "related person" of an adviser includes officers, partners, directors, most employees and anyone controlled by, controlling or under common control with Coastal.

### **8.3.7 Mutual Fund Shares Arrangements**

Coastal may maintain client assets that are mutual fund shares at the transfer agent of the mutual fund issuer of such shares. If such transfer agent is a Related Person of Coastal, Coastal must undergo a Surprise Examination and arrange for such transfer agent to obtain an Internal Control Report. At this time, no such relation exists.

### **8.3.8 Privately Offered Securities Custody Procedures**

Privately offered securities are typically issued by hedge funds or other private issuers in offerings that are not listed on an exchange. Because such securities typically are uncertificated and are not maintained in a book entry system such as the Depository Trust Company or DTC, they raise unique custody issues from the perspective of the SEC.

#### **1. Definition of "Privately Offered Securities"**

For purposes of these procedures, "privately offered securities" means securities:

- Acquired from the issuer in a transaction or chain of transactions not involving any public offering;
- Uncertificated, and ownership thereof is recorded only on the books of the issuer or its transfer agent in the name of the client, or certificated provided certain conditions discussed herein are satisfied; and
- Transferable only with prior written consent of the issuer or holders of the outstanding securities of the issuer.

#### **2. Privately Offered Securities Custody Procedures - Certificated and Uncertificated Securities**

Coastal maintains client assets that are privately offered certificated and uncertificated securities of issuers at:

- A Qualified Custodian (in such case, the privately offered securities will be maintained at the Qualified Custodian by placing the executed subscription agreements with the Qualified Custodian); or
- The issuer of such privately offered securities provided such issuer is a hedge fund that has its financial statements audited and the audited financial statements are distributed to its investors in a manner that complies with Rule 206(4)-2(b)(4).

#### **3. Privately Offered Securities Custody Procedures - Certificated Securities Only**

If Coastal comes into possession of privately offered certificated securities, it will maintain or custody them in the following manner:

1. Coastal will verify that the client is a pooled investment vehicle (*i.e.*, hedge fund) that is subject to a financial statement audit in accordance with paragraph (b)(4) of Rule 206(4)-2;

2. Coastal will verify that the private stock certificate can only be used to effect a transfer or to otherwise facilitate a change in beneficial ownership of the security with the prior consent of the issuer or holders of the outstanding securities of the issuer;
3. Coastal will confirm that the ownership of the security is recorded on the books of the issuer or its transfer agent in the name of the client;
4. The private stock certificate will contain a legend restricting transfer; and
5. The private stock certificate will be appropriately safeguarded by Coastal and can be replaced upon loss or destruction.

### 8.3.9 Constructive Custody

[Investment Advisers Act of 1940 Rule 206(4)-2]

Coastal is deemed to have constructive custody of client assets (even client assets held at an unaffiliated Qualified Custodian) if Coastal has a power of attorney, acts in a trustee capacity or otherwise has constructive custody in some other capacity with respect to the client assets causing it to be deemed to have custody for purposes of Rule 206(4)-2. When Coastal is deemed to have constructive custody of client assets, the Chief Compliance Officer will:

- Verify that Coastal custodies such client assets with a Qualified Custodian pursuant to the Unaffiliated Qualified Custodians or Self-Custody procedures set forth herein; and
- Arrange for a Surprise Examination of Coastal with respect to the client assets held in constructive custody in accordance with the Surprise Examinations procedures set forth herein, with the exception that the independent public accountant retained to perform the Surprise Examination need not be registered with or subject to regular inspection by the PCAOB.

### 8.3.10 Inadvertent Receipt of and Temporary Custody of Client Assets

From time to time, Coastal may have temporary custody of client assets. The following temporary custody scenarios were analyzed by the SEC staff ("SEC Temporary Custody Scenarios") in Investment Adviser Association (pub. Avail. Sept. 20, 2007):

- an adviser provides administrative services to its clients in connection with tax filings made with the Internal Revenue Service, state and other governmental taxing authorities (together, "Tax Authorities"); those services include completing tax forms and filing them with the Tax Authorities. The Tax Authorities sometimes send client tax refunds to the adviser's address;
- an adviser files proofs of claim for their clients and complete other documentation related to class action lawsuits and other legal actions. Administrators of funds established to distribute the settlement proceeds of these actions sometime send client settlement assets to the advisers; and
- an adviser receives stock certificates or dividend checks in the name of its clients. Advisers also may receive stock certificates (or evidence of new debt) in a class action lawsuit involving bankruptcy where shares are issued in a newly organized entity, or as a result of business reorganization.

If Coastal receives client assets in an SEC Temporary Custody Scenario, the Chief Compliance Officer will:

- promptly identify client assets that it inadvertently receives;
- promptly identify the client (or former client) to whom such client assets are attributable;
- promptly forward client assets to its client (or former client) or a qualified custodian, but in no event later than five business days following the adviser's receipt of such assets;
- promptly return to the appropriate third party any inadvertently received client assets that the adviser does not forward to its client (or former client) or a qualified custodian, but in no event later than five business days following the adviser's receipt of such assets; and
- maintain and preserve appropriate records of all client assets inadvertently received by it, including a written explanation of whether (and, if so, when) the client assets were forwarded to its client (or former client) or a qualified custodian, or returned to third parties.

The preceding procedures will apply to non-SEC Temporary Custody Scenarios only if such scenarios are a rare or isolated instance and the Chief Compliance Officer, after consulting with outside counsel or other adviser, concludes that the scenario is substantially similar to an SEC Temporary Custody Scenario.

### **8.3.11 Account Statements**

With respect to custody, there generally are two types of account statements reflecting the securities and other assets owned by clients of investment advisers. The Qualified Custodian will create and transmit to clients the assets in the clients' accounts and activity over a specified period. Likewise, the investment adviser itself may create and transmit to its clients' account statements, especially if the client maintains his or her assets with multiple custodians.

#### **8.3.11.1 Transmission of Account Statements**

The Chief Compliance Officer will arrange for Coastal to contractually require the Qualified Custodian of client assets to send account statements, at least quarterly, directly (and not via the adviser) to each client of Coastal. The account statement, at a minimum, will:

- identify the amount of funds and each security in the account at the end of the period; and
- set forth all transactions in the account during that period.

#### **8.3.11.2 Verification of Delivery of Account Statements**

The Chief Compliance Officer will verify that the Qualified Custodian has delivered Account Statements to Firm clients by making "due inquiry" as follows:

- Coastal will require the Qualified Custodian to transmit to Coastal a copy of the account statement that was delivered to each Firm client;
- Coastal will require the Qualified Custodian that delivers account statements electronically to Firm clients to copy Coastal on such e-mail notifications sent to clients and arrange for Coastal to have access to the client account statements on the Qualified Custodian's website; or
- Another method that constitutes the due inquiry of verification of account statement delivery.

If the account statement is delivered electronically, the Chief Compliance Officer will, or cause the Qualified Custodian to, make sure:

- the client has given informed consent to receiving the information electronically;
- the client can effectively access the electronically delivered information; and
- there is evidence that the delivery was received, such as an email return receipt.

### **8.3.12 Surprise Examinations**

The requirement that an investment adviser arrange for a "surprise examination" is triggered in part by whether the adviser or a Related Person of the adviser maintains client assets.

#### **8.3.12.1 Surprise Examination Determination**

Periodically, the Chief Compliance Officer will determine whether Coastal is required to arrange for a Surprise Examination. Coastal shall be required to arrange for a Surprise Examination if:

- Coastal as a Qualified Custodian has custody of client assets;
- Client assets are maintained at a Related Person of Coastal that is not "operationally independent" (as defined herein) of Coastal;
- Coastal has constructive custody of client assets even though such assets are maintained at an unaffiliated Qualified Custodian; or
- Coastal has custody of client assets because it has hedge fund clients and such hedge fund clients' financial statements are not audited by an Independent Public Accountant.

### 8.3.12.2 Surprise Examination Procedures

When Coastal is required to arrange for a Surprise Examination, it shall arrange for a Surprise Examination by entering into a written agreement with an Independent Public Accountant that requires such Accountant:

- to verify it is registered with and subject to regular inspection by the PCAOB (except with respect to constructive custody arrangements as set forth herein);
- to notify the SEC within one business day of finding any material discrepancy during the course of the Surprise Examination;
- to verify by actual examination at least once during each calendar year the client assets maintained by Coastal or Related Person;
- to choose the exam date and time;
- to ensure that the exam date is irregular from year-to-year;
- to file electronically through IARD Form ADV-E with the SEC accompanied by the accountant's certificate within 120 days of the time chosen by the accountant for the Surprise Examination, stating that the accountant has examined the funds and securities and describing the nature and extent of the examination;
- upon finding any material discrepancies during the course of the examination, to notify the SEC within one business day of the finding, by means of a facsimile transmission or electronic mail, followed by first class mail, directed to the attention of the Director of the Office of Compliance Inspections and Examinations;
- upon resignation or dismissal of the Independent Public Accountant, to file within 4 business days of such resignation or dismissal Form ADV-E and a statement containing:
  - the date of such termination or dismissal,
  - the name, address and contact information of the accountant, and
  - an explanation of any problems relating to the examination scope or procedure that may have contributed to such resignation or dismissal; and
- provide Coastal with the Independent Public Accountant's PCAOB registration number.

The filing by the independent public accountant of Form ADV-E and the surprise examination report is a two-step process: (1) Coastal must submit a Form ADV-E via the IARD that identifies the independent public accountant that will be performing the surprise examination (see the IARD Users Manual on <http://www.iard.com/UserSupport.asp>), and (2) the independent public accountant receives an email from the IARD system providing a unique, secure link which allows the accountant to upload a surprise examination report to the IARD (see <http://www.iard.com/pdf/formADV-E.pdf> for instructions). See Staff Responses to Questions About the Custody Rule (Posted December 2, 2010), [http://www.sec.gov/divisions/investment/custody\\_faq\\_030510.htm](http://www.sec.gov/divisions/investment/custody_faq_030510.htm).

### 8.3.12.3 Qualified and Unqualified Opinions



Coastal will report pursuant to Item 9.C.(6) and Item 7.B.(1) of Schedule D of Part 1A of its Form ADV whether any report prepared by its Accountant that audited a hedge fund client or examined internal controls contained an unqualified opinion.

### **8.3.13 Internal Control Reports**

The requirement that an investment adviser arrange for internal control reports is triggered in part by whether the adviser or a Related Person of the adviser maintains client assets.

#### **8.3.13.1 Internal Control Report Determination**

Periodically, the Chief Compliance Officer will determine whether Coastal is required to arrange for an Internal Control Report. Coastal shall be required to arrange for an Internal Control Report when:

- Coastal as a Qualified Custodian has custody of client assets;
- Client assets are maintained at a Related Person of Coastal that is not operationally independent of Coastal; or
- Coastal has custody of client assets solely because it has hedge fund clients and such hedge fund clients' financial statements are not audited by an Independent Public Accountant.

#### **8.3.13.2 Internal Control Report Procedures**

[Investment Advisers Act of 1940 Rule 206(4)-2(a)(6)]

When Coastal is subject to Internal Control Report requirements set forth herein, it will follow these procedures:

- Retain an Independent Public Accountant to prepare an Internal Control Report (e.g., a Type II SAS 70 report);
- Verify that the Independent Public Accountant will prepare an Internal Control Report that includes an opinion of the independent public accountant as to whether controls have been placed in operation as of a specific date, and suitably designed and operating effectively to meet control objectives relating to custodial services, including the safeguarding of funds and securities held by either the Firm or its Related Person on behalf of the clients during the year;
- Arrange for the Independent Public Accountant to verify that the funds and securities are reconciled to a custodian other than Coastal or Related Person of Coastal; and
- Arrange for the Internal Control Report to be prepared at least once each calendar year (and within 6 months after first being subject to Rule 206(4)-2(a)(6) under the Advisers Act).

The Internal Control Report does not need to address the effectiveness of controls over custodial services prior to March 12, 2010, the effective date of the amended rule, even if it results in a shortened examination period for the 2010 Internal Control Report.

### **8.3.14 Independent Public Accountant**

[Investment Advisers Act of 1940 Rule 206(4)-2]

A number of requirements under Rule 206(4)-2 which may or may not be applicable to an investment adviser involve an Independent Public Accountant.

### **8.3.14.1 Definition of "Independent Public Accountant"**

[SEC Regulation S-X]

For purposes of these Custody Procedures, an "Independent Public Accountant" means an accountant registered with and subject to regular inspection by the Public Company Accounting Oversight Board in accordance with its rules and that meets the standards of independence described in Rule 2-01(b) and (c) of Regulation S-X.

### **8.3.14.2 Timing of Independent Public Accountant Status**

Any Independent Public Accountant engaged by Coastal for purposes of these Custody Procedures shall have such status:

- As of the commencement of the professional engagement period; and
- Through each calendar year-end.

### **8.3.14.3 Independent Public Accountant's Relationship with the Adviser**

An accounting firm that regularly audits Coastal's books or the books run of a hedge fund run by Coastal nevertheless may be independent of Coastal.

### **8.3.15 Client Representatives**

A client may not wish to receive statements from a custodian directly. Clients can choose to have an independent representative receive account statements on their behalf.

Coastal permits a client to designate a representative to receive the client's statements from a broker-dealer or bank only if such representative:

- Acts as agent for the advisory client and by law or contract is obliged to act in the best interests of the client;
- Does not control, is not controlled by, and is not under common control with Coastal;
- Does not have, and has not had within the past two years, a material business relationship with Coastal; and
- Is appointed by the client or, if appointed by Coastal, the client consents to such appointment.

### **8.3.16 Overdrafts**

Overdrafts may occur for a variety of reasons, including when a client does not have sufficient cash in his or her account to cover securities purchases on the settlement date. Frequent overdraft positions in client accounts may invite unwanted regulatory scrutiny.

Coastal will manage client positions and accounts in a manner that minimizes the possibility of overdrafts in client accounts. The Chief Compliance Officer will report any pattern of overdrafts to the senior management of Coastal.

### **8.3.17 Unusual Account Activity**

The Chief Compliance Officer and each Adviser Representative shall report any unusual activity in a client's account to senior management of Coastal, who shall assign someone to investigate such activity.

### **8.3.18 Authorization**

Coastal will obtain from clients a list of persons who are authorized to withdraw or otherwise take actions with respect to such client's account. Coastal shall consider the use of passwords or other security devices to ensure that a person has proper authority to take actions with respect to a client's account. Coastal shall not permit the withdrawal of funds from a client account or any other activity from a person other than a client, unless such person demonstrates that he or she has proper authority to take such action.

### **8.3.19 Commodities/Futures**

[Commodity Exchange Act Section 4f(a)]

Coastal will ensure that any client assets invested in security futures, or other securities incidental to transactions in contracts for the purchase or sale of a commodity for future delivery and options thereon, will be held at a futures commission merchant registered under Section 4f(a) of the Commodity Exchange Act. A futures commission merchant qualifies as a Qualified Custodian with respect to security futures owned by clients.

### **8.3.20 Swaps**

If Coastal has custody of a client's assets that include a swap agreement with a counterparty and posts funds or securities as collateral in connection with the swap on behalf of the client, such collateral must be maintained with a Qualified Custodian. If the Qualified Custodian is a related person, Coastal must receive an Internal Control Report from the Qualified Custodian. In addition, Coastal must undergo a surprise examination unless the Qualified Custodian is operationally independent. Both the surprise examination, if required, and Internal Control Report must be performed by an accountant that is registered with, and subject to regular inspection by, the PCAOB.

### **8.3.21 Audited Balance Sheet**

If Coastal receives the prepayment of fees exceeding \$1200 per client and six more months in advance, it will include an audited balance sheet in its Firm Brochure that is provided to clients.

### **8.3.22 Additional SEC Best Practices**

From time to time, Coastal shall consider implementing custody best practices identified by the SEC in its 2009 release adopting amendments to Rule 206(4)-2, including the following:

- conducting background and credit checks on employees of Coastal who will have access (or could acquire access) to client assets to determine whether it would be appropriate for those employees to have such access;

- requiring the authorization of more than one employee before the movement of assets within, and withdrawals or transfers from, a client's account, as well as before changes to account ownership information;
- limiting the number of employees who are permitted to interact with custodians with respect to client assets and rotating them on a periodic basis;
- if Coastal also serves as a qualified custodian for client assets, segregating the duties of its advisory personnel from those of custodial personnel;
- monitoring for inconsistencies or patterns that suggest possible manipulation of address information as a means for concealing misappropriation from these accounts by advisory personnel;
- requiring any custodial-related problems be brought to the immediate attention of the management of Coastal;
- precluding employees from acquiring custody by prohibiting them from, for example, becoming trustees for client assets or obtaining powers of attorney for clients separate and apart from Coastal; and
- comparing, on a sample basis, client addresses obtained from the clients' Qualified Custodians to the addresses of clients maintained by Coastal.

### 8.3.23 SEC Q&As

[Investment Advisers Act of 1940 Rule 206(4)-2]

Due to the complexity of Rule 206(4)-2, the SEC from time to time issues a Q&A regarding issues raised by the Rule. Coastal shall monitor the SEC's website ([www.sec.gov](http://www.sec.gov)) for Q&As and revisions to Q&As related to Rule 206(4)-2 and, when appropriate, amend these procedures to be consistent with the latest guidance provided by the SEC regarding custody of hedge fund client assets.

## 8.4 Form ADV Disclosure

Coastal will indicate on Item 9 to Part I of its Form ADV:

- whether or not Coastal has custody of client assets;
- whether a Related Person of Coastal has custody of client assets;
- if necessary, provide a list of Related Persons in Schedule D of Coastal's Form ADV;
- if necessary, provide information about annual surprise examination; and
- if necessary, provide information about Independent Public Accountant.

Coastal will maintain a list of custodians that hold 10% or more of the assets under management of Coastal's separately managed accounts.

The SEC has stated that it focuses on advisers' custodians that hold 10% or more of its separately managed account assets under management. Having additional information about these larger advisers assists the staff in risk assessment.

## 8.5 Books and Records

[Investment Advisers Act of 1940 Rule 206(4)-2(d)(5)]

To the extent necessary, Coastal will maintain in the "Custody" section of its books and records:

- Copies of all written materials received or sent concerning the receipt or delivery of clients' securities and funds;
- Copies of all written materials related to the purchase and sale of securities on behalf of clients;

- Worksheets demonstrating the reconciliation and documents related to discrepancies and their resolutions;
- Copies of any Internal Control Reports prepared pursuant to the Custody Procedures; and
- If applicable, a memorandum substantiating that a Related Person is operationally independent of Coastal, which includes a rebuttal to the presumption that such Related Person is not operationally independent based on the factors identified in Rule 206(4)-2(d)(5).

# 9 MARKETING

## Introduction

Successful marketing is the key to the success of any business. In the advisory business, there is a direct correlation between assets under management and profits. Each dollar of client assets an investment adviser attracts increases each dollar of profits.

Partly because of this profit motive and the fiduciary duty advisers owe to clients, the SEC closely regulates advertising and other marketing activities by investment advisers. Federal and state securities laws prohibit the use of advertisements and sales literature in connection with the giving of investment advice that is false, creates an improper impression or omits to state information necessary to make other statements not misleading. The SEC defines "advertisement" broadly to include any communication that offers advisory services, whether it be in print, on the Internet, in electronic form, on the radio or on television.

The SEC's Office of Compliance Inspections and Examinations (OCIE) periodically issues an informal top ten most common problems they see at investment advisers. Performance and other advertising issues have made the list every time. Fraudulent advertising remains the most common type of serious violation OCIE finds in its examinations. In one recent speech, the Director of OCIE stated that the SEC continues to place special emphasis on reviewing advisers' performance claims and that "it goes without saying that any representation to customers must be completely accurate." Common problems cited by the SEC include:

- Use of inflated performance results;
- Use of selective investment recommendations;
- Performance figures that are not supported by client account documentation;
- Composites consisting of "cherry picked" client accounts; and
- Gross performance figures (i.e., figures that do not exclude fees).

Needless to say, comprehensive marketing compliance procedures and diligent administration of those procedures is critical to an investment adviser's overall compliance program.

*These policies and procedures govern all Coastal advertisements and sales materials. Other types of public communications made by Coastal designed to retain existing clients are also considered advertisements, including form letters and other client communications. These communications are covered by different policies and procedures in the Compliance Manual.*

## 9.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Rule 204-2(a)(11) and 206(4)-3; SEC Securities Act of 1933 Rule 156; Telemarketing and Consumer Fraud and Abuse Prevention Act]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Advertising Supervisor/Compliance</li></ul>
<b>Operational Areas</b>	
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Prior to each time a marketing piece is disseminated</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Rule 156 under the Securities Act of 1933</li><li>• Rule 204-2(a)(11) under the Investment Advisers Act of 1940</li><li>• Rule 206(4)-3 under the Investment Advisers Act of 1940</li></ul>

	<ul style="list-style-type: none"> <li>• Telemarketing and Consumer Fraud and Abuse Prevention Act</li> </ul>
<b>Records</b>	<ul style="list-style-type: none"> <li>• Advertisements/Seminar Materials</li> <li>• Advertising Request Form/Public Appearance Request Form</li> <li>• Marketing Pro/Emerald/FMG Suite/Other approved electronic social media and advertising platforms</li> <li>• Account Information Supporting Performance Figures</li> <li>• Referral Arrangement Documents</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Marketing Procedures as part of its annual RIA testing at the discretion of the CCO</li> </ul>

## 9.2 Policy

It is Coastal's policy to advertise and otherwise market its advisory services in a truthful and non-misleading manner.

## 9.3 Procedures

### 9.3.1 Advertisements and Marketing Pieces Approval Procedures

Each marketing piece or advertisement must be reviewed and controlled in advance of public dissemination.

With respect to each proposed marketing piece including, but not limited to, stationary, print advertisements, market commentary, public appearances, etc.:

1. The Adviser Representative submitting the proposed marketing piece will prepare a request form ("Advertising/Retail Communication Submission Form" or "Public Appearance Request Form") containing the following:

- Text of the proposed advertisement, proof, or sample;
- Target audience;
- Deadline; and
- Statement whether the advertisement contains performance data, and, if so, the source of the data.

2. The Adviser Representative shall forward the Request and proposed material(s) by email to [Advertising@coastal-one.com](mailto:Advertising@coastal-one.com). Materials generated or submitted through electronic platforms such as FMG Suite and Emerald will be automatically queued for review in those systems and do not require the Coastal Request Forms.

3. The Advertising Supervisor, using the factors described below, will determine whether the proposed advertisement or marketing piece is misleading and that it complies with all applicable regulations and SEC interpretative positions of those regulations.

4. After reviewing the proposed advertisement or marketing piece, the Advertising Supervisor will indicate on the Request Form his or her approval or disapproval of the proposed advertisement or marketing piece, or electronically if submitted via an electronic platform, and returned to the adviser via email.

5. Approved marketing pieces will be maintained electronically in email archive or the applicable electronic platform used, if any.

6. Approved advertisements and marketing materials may not be used or modified (except to update performance information) without the express written approval of the Advertising Supervisor.

7. Advertisements with material modifications or advertisements that have been in use for at least one year must be re-routed through the process set forth above.

### **9.3.2 Advertisements and Marketing Pieces Content Review**

[SEC Securities Act of 1933 Rule 156]

All advertisements or marketing pieces will be reviewed prior to dissemination to verify that they are not misleading. In determining whether a particular advertisement or marketing piece is misleading, the Advertisement Reviewer will look to Rule 156 of the Securities Act of 1933 (which governs sales literature by mutual funds) for guidance. Rule 156 defines a "materially misleading" advertisement as an advertisement that either contains an untrue statement of material fact or omits to state a material fact necessary in order to make a statement made, in light of the circumstances of its use, not misleading. The Advertisement Reviewer will consider the following Rule 156 factors:

- The presence or absence of statements being made in connection with the offer or sale (or advice being given) of the securities in question;
- The presence or absence of any explanations necessary to make a statement not misleading;
- The general economic or financial conditions;
- Any representations of future gains, income or expenses;
- Any portrayals of past performance that imply that past results will be repeated in the future, or that can not be justified under the circumstances;
- Any discussion of benefits of the investment without giving equal prominence to the risks or limitations associated therewith; and
- Any exaggerated or unsubstantiated claims.

Other factors that the Advertisement Reviewer will consider include the:

- Overall context in which the advertisement or communication is made;
- Audience to which the advertisement or communication is directed;
- Overall clarity of the advertisement or communication; and
- Use of explanatory footnotes in the advertisement or communication.

Prior to approving a particular advertisement, the Advertisement Reviewer will:

- Identify incomplete, inaccurate and missing disclosure;
- Identify and delete or revise any superlatives such as "superior returns" or "outstanding performance;"
- Identify and delete or revise any promissory statements;
- Identify and delete or revise any statements that are too broad and that cannot be substantiated by the facts and circumstances; and
- Ensure that the content contains no misspellings, incorrect punctuations and grammatical errors.

### **9.3.3 Types of Marketing Activities**

Prior to engaging in any type of marketing activity, Coastal must determine whether such activity is permissible and, if so, whether there are legal restrictions on such activities. All marketing activities are subject to the procedures and restrictions described above (i.e., they may not contain material misrepresentations or be misleading). Set forth below are specific marketing activities and the restrictions placed upon those activities.



### 9.3.3.1 Article Reprints

Coastal may desire to distribute copies of articles about itself (from newspapers, magazines, etc.) to clients, including articles that rank Coastal based on performance and other criteria. The SEC generally permits an investment adviser to distribute article reprints under certain conditions. See *Stalker Advisory Services, SEC No-Action Letter (pub. avail. Jan. 18, 1994)*.

An Adviser Representative of Coastal may disseminate an article only if:

1. the dissemination of the article was approved by the Chief Compliance Officer and the Advertising Legal Counsel, who shall review it to ensure that it is accurate and not misleading by considering such factors as:
  - o how long ago the article was printed and whether it continues to be relevant;
  - o is the article materially accurate;
  - o is the content relevant to today's markets;
  - o does Coastal still provide the investment management services mentioned in the article, including the particular investment styles; and
  - o do Coastal clients continue to own the securities mentioned in the article, assuming individual securities are mentioned;
2. the article was written by an unbiased third party;
3. Coastal has obtained written permission from the publisher of the article to reprint it, and, if required, has paid for the reprints and/or right to reprint;
4. the article does not contain a client's endorsement or describe a client's experience with the adviser; and
5. Coastal deems the article reprint that is disseminated to be an advertisement subject to Coastal's recordkeeping procedures and maintains: (i) a copy of the reprint; and (ii) list of recipients of the reprint.

### 9.3.3.2 Client Lists

From time to time, Coastal may desire to disseminate its entire or partial list of clients for marketing or other reasons. The SEC permits the dissemination of client lists provided certain conditions are met. See *Denver Investment Advisors, Inc., SEC No-Action Letter (pub. avail. July 30, 1993)*.

An Adviser Representative may disseminate client lists only if:

1. the dissemination of the client list was approved by the Chief Compliance Officer and Advertising Legal Counsel;
2. the inclusion of a particular client on the list is not based on the performance of such client's account;
3. a statement explaining the objective criteria used to determine which clients would be included on the list appears on the list; and
4. the following disclaimer appears on the list: "It is not known whether the listed clients approve of the adviser."

### 9.3.3.3 One-on-One Presentations

Prospective clients may ask about the investment performance of the existing clients of Coastal. SEC guidelines governing what disclosure must be made when performance is presented in a one-on-one presentation are less stringent than general advertisements. A "one-on-one" presentation can be made to more than one person provided the setting is private and confidential and the clients or prospective clients have the opportunity to discuss with the adviser the kind of fees it charges. In *Investment Company Institute (pub. avail. Sept. 23, 1988)*, the SEC set forth the conditions that must be met when an investment adviser presents gross performance in a one-on-one presentation.

When an Adviser Representative of Coastal presents Coastal's performance results to clients in one-on-one meetings, he or she will make the following disclosures:

1. The performance fees (if presented in a gross manner) do not reflect the deduction of advisory fees;
2. The client's returns will be reduced by the advisory fee and any other expenses the client may incur in the management of the account;
3. Coastal's advisory fees are disclosed in the Firm's Brochure (Part 2A); and
4. A chart, table, narrative or other information showing the effect of its advisory fee, compounded over time, on the total value of a client's portfolio.

A brochure used in one-on-one marketing pieces must contain a legend similar to the following:

*"The performance presented by Coastal is before deducting investment advisory fees but is net of transaction costs. Client returns will be reduced by advisory fees and other expenses. The client is referred to the Firm's Brochure for a full disclosure of the fee schedule. As fees are deducted quarterly, the compounding effect will be to increase the impact of the fee by an amount directly related to the gross account performance. For example, on an account with a 0.5% fee, and gross performance of 20% over one year, the compounding effect of the fee will result in performance of approximately 19.4%. A \$10,000 initial investment would grow to approximately \$14,256 gross of fees, versus \$14,000 net of fees, over a two year period."*

### **9.3.3.4 Past Recommendations**

[Investment Advisers Act of 1940 Rule 206(4)-1(a)(2)]

From time to time, Coastal will have made an excellent past investment recommendation and naturally will want to advertise that fact. For example, an investment adviser would like to advertise the fact that it recommended the purchase of Microsoft shares in 1988. The SEC, however, imposes very stringent rules on when investment advisers can advertise past recommendations. Rule 206(4)-1(a)(2) under the Investment Advisers Act of 1940 prohibits an investment adviser from including past specific recommendations in an advertisement unless certain conditions are met.

#### **9.3.3.4.1 Inclusion of Past Recommendations in Advertisements**

Coastal will advertise a past recommendation only if the advertisement contains the following information:

1. All recommendations (or offer to supply such information upon request) made by the adviser within the preceding year;
2. The name of each security recommended;
3. The date and type (buy/sell) of recommendation;
4. The market price of the security at the time of the recommendation;
5. The price when the recommendation was acted on;
6. The market price as of the most recent date; and
7. A legend that states: "It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in the list."

With respect to condition (1), Coastal will not advertise past specific recommendations even if Coastal offers to supply a list of all recommendations. It will only disseminate such an advertisement if the piece contains a list of all of Coastal's past recommendations over the applicable period.

Coastal will not disseminate an advertisement containing only a list of types of recommendations ( e.g., only equity recommendations when the piece addresses how Coastal manages equity investments). Instead, Coastal will present the recommendations of all its accounts ( e.g., equity, fixed-income and balance) even if the piece focuses only on one type of account.

#### **9.3.3.4.2 Inclusion of Past Recommendations in Periodic Client Reports**

For purposes of the above limitations, a regular report sent to clients of Coastal will not be deemed to be an advertisement, provided that there is no intent by Coastal to market its services through such reports. In such reports, Coastal therefore may identify and discuss some, but not all, of the securities Coastal purchased, sold or held over the relevant period that the report addresses under the following conditions:

1. The securities described in the report are selected using objective, non-performance based criteria;
2. Coastal uses the same selection criteria for each relevant period ( e.g., quarter) for each investment category; and
3. The reports do not discuss the extent to which the investments were profitable or not profitable.

See *Franklin Management, Inc. (pub. avail. December 10, 1998)*.

#### **9.3.3.4.3 Inclusion of Top Performing and Least Performing Past Recommendations in Advertisements**

Coastal may include in an advertisement or marketing piece a chart or table showing top performing client holdings, provided the following conditions are met:

1. The methodology to calculate the performance of the representative accounts is applied to all holdings of the representative accounts;
2. The holdings presented were the result of a methodology that mechanically calculates an equal number of best-performing holdings and worst-performing holdings and such methodology does not involve any subjective factor or allow Coastal the opportunity to "cherry-pick" the holdings presented;
3. The best and worst performers are presented: (i) on the same page; (ii) with equal prominence; and (iii) with appropriate disclosure;
4. The chart or table discloses how someone may obtain: (i) the calculation methodology; and (ii) a list showing the contribution of each holding in the representative account to the account's performance during the measurement period;
5. The chart or table clearly indicates that the holdings identified do not represent all of the securities purchased, sold or recommended for clients and states that past performance does not guarantee future results;
6. At least ten holdings are shown, including an equal number of holdings that contributed most positively to a representative account's performance and an equal number of holdings that contributed most negatively to the representative account's performance;
7. The methodology consistently weighs every holding in the account;
8. The number of holdings presented, the calculation methodology and the presentation of information are consistent from period to period; and
9. Coastal maintains the following records: (i) the criteria used to select the specific securities listed in the charts or tables; (ii) a list showing the contribution of each holding in the representative account to the account's performance during the measurement period; and (iii) all supporting the data necessary to demonstrate the calculation of the contribution of each holding and the appropriateness of the holdings included in each chart.

See *TCW Group (pub. avail. November 7, 2008)*.

#### **9.3.3.5 Performance Achieved at Another Adviser**

Coastal may desire to advertise performance achieved at another advisory firm. For example, Coastal may have recently hired a portfolio manager or team of portfolio managers from another firm that had an excellent track record and now desires to advertise that performance. Coastal also could be the product of a restructured firm or have acquired another advisory firm, and as a successor adviser, desires to advertise the performance of the predecessor firm. The SEC has taken very strict positions on when an investment adviser may advertise performance that occurred at a predecessor adviser (*Horizon Asset Management, LLC, SEC No-Action Letter*

(pub. avail. Sept. 13, 1996)) and achieved by portfolio managers at another firm (*Bramwell Growth Fund, SEC No-Action Letter (pub. avail. Aug. 7, 1996)*).

Coastal will include in advertisements or marketing materials performance results achieved by a predecessor investment adviser only if the following conditions are met:

- The Chief Compliance Officer and the Advertising Legal Counsel each approve the use of the performance results from the prior advisory firm in an advertisement;
- Coastal has copies of original brokerage statements or other records made at the prior firm supporting the performance figures achieved by the predecessor advisory firm;
- The accounts currently managed by Coastal have substantially the same investment objectives, policies and strategies as the accounts managed by the personnel at the predecessor investment adviser;
- The advertisement includes disclosure that the performance results were from accounts managed at the predecessor adviser;
- No other person who is not employed by Coastal played a significant role in achieving the performance at the other advisory firm; and
- The performance is not presented in a misleading manner.

Coastal will include in advertisements or marketing materials performance results achieved by portfolio managers at another advisory firm if the following conditions are met:

- The Chief Compliance Officer and Advertising Legal Counsel each approve the use of the performance achieved at the prior advisory firm in an advertisement;
- Coastal has copies of original brokerage statements or other records made at the prior firm supporting the performance figures achieved by the portfolio manager or team of portfolio managers at the prior advisory firm;
- The accounts currently managed by the portfolio manager or team of portfolio managers at Coastal have substantially the same investment objectives, policies and strategies as the accounts managed by them at the prior advisory firm;
- The performance of all of the comparable accounts that the portfolio manager or team of portfolio managers managed is included in the performance;
- No other person who is not employed by Coastal played a significant role in achieving the performance at the other advisory firm;
- The performance is not presented in a misleading manner; and
- The advertisement includes disclosure that the performance results were from an account managed by certain personnel during their employment at an unaffiliated adviser.

### 9.3.3.6 Performance Advertisements

[Investment Advisers Act of 1940 Rule 206(4)-1(a)(5)]

A successful investment adviser desires to advertise its performance results. The SEC has strict rules on how an investment adviser may advertise its past performance. It is the SEC's view that an advertisement containing performance information may be misleading in violation of Rule 206(4)-1(a)(5) under the Investment Advisers Act of 1940 depending on the facts and circumstances of the advertisement. The SEC has stated that if the particular advertisement implies, or a reader infers from it, something about the adviser's competence or future investment results that would not be true had the advertisement included all material facts, then the performance advertisement is misleading. Because of this vague standard, advisers advertising or otherwise disseminating their performance look to specific guidelines that have been established by the SEC in no-action letters. It is the policy of Coastal to comply with these guidelines. See *Clover Capital Management, SEC No-Action Letter (pub. avail. Oct. 28, 1996)*; *Investment Company Institute, SEC No-Action Letter (pub. avail. Aug. 24, 1987)*; *Investment Company Institute, SEC No-Action Letter (pub. avail. Sept. 23, 1988)*; *Securities Industry Association, SEC No-Action Letter (pub. avail. Nov. 27, 1989)*; *J.P. Morgan Investment Management, Inc., SEC No-Action Letter (pub. avail. May 7, 1996)*; and *AIMR, SEC No-Action Letter (pub. avail. Dec. 18, 1996)*.

#### 9.3.3.6.1 Permissible Performance Advertisements

Coastal may advertise or otherwise disseminate its performance results only if the advertisement or written communication discloses:

- The effect of material market or economic conditions on the results advertised (e.g., it would be misleading to advertise that the adviser's composite of equity managed accounts increased 10% without disclosing that the equity market was up 40% during the same period);
- Performance net of fees (e.g., advisory fees, brokerage commissions and other fees clients actually paid), with the following exceptions:
  - gross performance figures may be presented if they are presented side-by-side with the net figures with equal prominence;
  - custodial fees do not have to be netted out;
  - performance figures may be presented net of a model fee, provided that the model fee is equal to the highest fee charged to the accounts that make up the composite; and
  - gross performance figures may be presented in one-on-one presentations;
- Whether the performance reflects the reinvestment of dividends or other distributions;
- The possibility that a client may incur loss if the advertisement makes a claim about potential profits;
- The similarities and differences between how accounts are managed and an index if the advertisement includes the performance of an index;
- Material conditions, objectives and investment strategies employed by the adviser to achieve the performance;
- If applicable, the results portrayed relate only to a select group of client accounts, the basis for selecting the particular client accounts, and the effect, if material, of limiting the performance result to a particular group of clients;
- At a minimum, the average total returns for one, five and ten year periods and clear identification of the end-of-period date for each period presented;
- A description of the composite, including the investment strategy used to achieve the composite results;
- The percentage of non-fee-paying accounts included in the composite, if the returns in the composite are based in part on non-fee-paying accounts;
- The dollar amount of assets represented by the composite and the percentage of Coastal's total assets that the composite represents;
- Performance returns through at least the most recent calendar quarter; and
- A clear portrayal of any material disparity between the performance of the composite and the actual performance of Coastal's accounts.

**If Coastal does not have all of the documentation required by Rule 204-2(a)(16) of the Investment Advisers Act of 1940 that supports performance figures in an advertisement, it will immediately cease from using that advertisement.**

#### **9.3.3.6.2 Prohibited Performance Advertisements**

Performance advertisements may not:

- Contain distorted performance results from Coastal constructing composites that include only selected profitable accounts or periods that were profitable. This prohibited practice is sometimes referred to as "cherrypicking;"
- Make claims or infer the potential for profit without also disclosing the potential for loss; and
- Omit facts necessary for the advertisement to be not misleading (e.g., whether and to what extent the performance results reflect the reinvestment of dividends).

#### **9.3.3.7 Rankings**

The SEC permits investment advisers to disseminate materials containing a reprint of a research firm's ranking or rating of the adviser under limited conditions. See *DALBAR, Inc. (pub. avail. Mar. 24, 1998)*. In many cases, these rankings are prepared by a research firm that surveys the clients of a number of investment advisers. Coastal may distribute an advertisement containing a ranking or rating of Coastal's past performance provided it has a reasonable basis for concluding that the research firm that created the ratings or rankings met each of the following conditions:

- The ratings do not emphasize favorable client responses or ignore unfavorable ones;
- The ratings represent all, or a statistically valid sample, of responses of an adviser's clients;
- The questionnaire distributed to clients by the research firm was not prepared to produce any pre-determined favorable results;
- The research firm does not provide any subjective analysis of the questionnaire results but merely assigns numerical ratings after averaging the client responses for each adviser;
- Coastal and other participating advisers meet certain eligibility criteria designed to ensure that a participating adviser has an established and significant history and a record free of regulatory sanctions;
- The research firm is not affiliated with any participating adviser;
- All participating advisers would be charged a uniform fee, paid in advance; and
- Any survey results published by the research firm would clearly identify the percentage of survey participants that received each category designation and the total number of survey participants.

Prior to distributing such ranking or rating, Coastal will:

- Verify that it is unaware of any facts that would call into question the validity of the rating or ranking was based;
- Not advertise a favorable rating or ranking without advertising an unfavorable rating or ranking;
- Include prominent disclosure of the category for which the rating was calculated, the number of advisers surveyed in that category and the percentage of advisers that received a designation (if a designation is awarded);
- Include a statement in the piece that the rating or ranking is not indicative of the adviser's future performance;
- Include a statement that the rating may not be representative of any one client's experience because the rating reflects an average of the experience of all of the clients; and
- Include a prominent statement about who created and conducted the survey and that Coastal paid a fee to participate in the survey (if true).

### **9.3.3.8 Research Reports**

Any research report prepared by an employee must be reviewed and approved by the Chief Compliance Officer prior to its dissemination to clients or other persons. "Research" includes an analysis of companies, industries, market conditions and securities that is designed to be used to make an investment decision. Employees preparing research reports should use proper care to ensure that third-party materials relied upon by the employee are reputable and reliable. Coastal may not make a representation that a research report, analysis or other service was provided without charge, when the report, analysis or other service was in fact provided with some financial obligation upon the client.

### **9.3.3.9 Placement Agent/Finder Exemption**

[SEC Securities Exchange Act of 1934 Section 15(a)]

Section 15(a) of the Securities Exchange Act of 1934 requires certain persons or entities that effect securities transactions to register with the SEC as a broker-dealer. Because placement agents may be deemed to effect securities transactions when they locate potential investors for any hedge funds managed by Coastal, they may meet the definition of "broker." The SEC through no-action letters has taken the position that placement agents will not have to register as a broker-dealer if they limit their activities.

If Coastal manages hedge funds, it will enter into an arrangement with a placement agent only if the following conditions are met:

- The placement agent does not receive transaction-related compensation ( *i.e.*, the placement agent agrees to receive a flat fee and pay the fee regardless of the success of a referral);
- The placement agent agrees to not hold himself or herself out as offering brokerage services; and
- The placement agent agrees to limit his or her activity to making the initial referral and will not participate in any subsequent activities involved in the sale of the hedge fund interests.

### **9.3.3.10 Form of Solicitation Compensation Arrangements**

Coastal will not structure any solicitation arrangement with a third-party solicitor that compensates such third-party for referrals based on the transactions by clients who are referred.

### **9.3.3.11 Seminars and Speeches**

A seminar or a speech could be construed as a form of an advertisement if it informs the public about the availability of investment products and services. Accordingly, Adviser Representatives may only participate in investment-related seminars or give investment-related speeches if the following policies and procedures are followed:

- The Adviser Representative shall complete and submit the "Public Appearance Request/Seminar/Luncheon Request" form to [Advertising@coastal-one.com](mailto:Advertising@coastal-one.com) with all materials proposed to be disseminated at the seminar or speech at least four weeks prior to the date of the seminar or speech to allow adequate time for the review of the materials and to correct any disclosure or other issues
- All oral and written material presented at a seminar or given in a speech must be accurate and not misleading;
- Claims or statements that cannot be substantiated may not be made;
- After review and approval by the Advertising Supervisor, the Advertising Supervisor pre-clears each proposed seminar or speech and materials to be disseminated or presented at the seminar;
- A list of attendees shall be provided to [Advertising@coastal-one.com](mailto:Advertising@coastal-one.com) within seven(7) business days after each seminar.

### **9.3.3.12 Senior Citizens**

Regulators such as the SEC continue to focus on how financial products and services, including investment advisory services, are sold to senior citizens. Two key areas subject to scrutiny are how financial firms communicate with senior citizens and the suitability of financial products and services recommended to senior citizens. Regulators have sanctioned firms that fail to ensure that senior citizens are thoroughly informed of both the advantages and disadvantages associated with various investment products and recommendations. The SEC has commissioned the RAND Corporation to conduct a study that includes an evaluation of "the current legal and regulatory environment for the provision of financial products, accounts, programs and services to senior investors by broker-dealers and investment advisers."

Prior to marketing financial services to senior citizens, Coastal shall:

- Consider the font size, color and other visual factors in materials distributed to senior citizens;
- Not permit its representatives to make sales calls on clients in nursing homes, assisted living facilities or similar special care or elder living settings without the express written approval of the Chief Compliance Officer;

- When appropriate and feasible, consult with or seek the involvement of the family such as beneficiaries and children of a senior citizen client;
- Look for signals suggesting changes in comprehension, dementia and other factors indicating a decrease in mental faculties.

### **9.3.3.13 Television and Radio**

The definition of advertisement includes any "announcement in any publication or by radio or television which offers" any investment advisory services regarding securities or any analysis, report or publication regarding securities.

An Adviser Representative proposing to make a presentation related to securities to the media, or granting an interview with the media related to securities must:

- Obtain approval in advance from his/her supervisor and the Chief Compliance Officer;
- Request assistance from the Chief Compliance Officer in preparing for such presentation or interview; and
- Must avoid making any materially misleading or untruthful statements during the presentation or interview.

### **9.3.3.14 Unsolicited Requests for Information**

Coastal will not deem a written communication to a client, prospective client or consultant to be an advertisement subject to the restrictions set forth herein if such written communication merely responds to an unsolicited request by a client, prospective client or consultant for specific information. Such written communication may include past recommendations.

*See Investment Counsel Association of America, Inc. (pub. avail. Mar. 1, 2004).*

### **9.3.3.15 Web Site**

An investment adviser's web site can be an excellent marketing tool that describes the investment adviser and its services. Beyond such basic information, investment advisers often design the site to offer information, tools, and other services to a client as a way of encouraging existing and potential clients to visit the web site. Web sites can offer numerous features including links to financial sites, graphics, and financial clients. Sophisticated sites allow clients to access account information.

The SEC generally treats an investment adviser's web site as an advertisement. Consequently, it is Coastal's policy to control the content and its presentation on the web site through the following procedures:

- No employee of Coastal may change, modify, add or delete content on the web site, including the addition or deletion of links, without the express approval of the Chief Compliance Officer.
- All information placed on the web site may only be for informational purposes. No information that constitutes an offer to sell or buy a security or a form of investment advice may be placed on the web site. The web site will contain a disclaimer making this representation.
- All content placed on the site shall be truthful and not misleading.
- The web site shall contain a section referenced on the home page that contains the web site's terms and conditions of use by viewers.

The use of hyperlinks in Coastal's web site to third-party information has the potential of creating liability to Coastal for the hyperlinked information. *See Commission Guidance on the Use of Company Web Sites,*



*Securities Act Release No. 58288 (Aug. 1, 2008)*. To address this concern, Coastal, prior to hyperlinking to information on any third-party web site, will consider the following factors:

- *Context of the hyperlink*. What Coastal says about the hyperlink or what is implied by the context in which Coastal places the hyperlink;
- *Risk of confusing clients or prospective clients*. The presence or absence of precautions against client or prospective client confusion about the source of the information; and
- *Presentation of the hyperlinked information*. How the hyperlink is presented graphically on the web site, including the layout of the screen concerning the hyperlink.

After considering these factors, Coastal will only post the hyperlink if, in its reasonable view, it concludes that the context of the hyperlink and the hyperlinked information does not create a reasonable inference that Coastal has approved or endorsed the hyperlinked information.

### **9.3.4 Requests of Performance Information by Consultants, Clients and Others**

From time to time, a consultant, client or others may request Coastal to provide them with statistical information, information on past recommendations and other information about the performance of Coastal. Such persons may request this information so that they may perform an analysis Coastal for their clients. *See Investment Counsel Association of America, Inc., SEC No-Action Letter (pub. avail. March 1, 2004)*.

Coastal may respond to requests from consultants for information about past investment recommendations only if the following conditions are met:

- Coastal supplies the information only in response to an unsolicited request (i.e., Coastal did not directly or indirectly solicit the consultant, client or other person to make the request);
- The Chief Compliance Officer reviews the information that the employee of Coastal proposes to transmit to the consultant; and
- The Chief Compliance Officer authorizes the release of the information to the consultant.

### **9.3.5 Third-Party Consultants**

Coastal shall utilize or otherwise interact with third-party consultants to market Coastal's advisory services only after:

1. Performing due diligence on the third-party consultant and its principals, including such persons' regulatory and disciplinary history and any conflicts of interest;
2. Determining the regulatory status of the third-party consultant, including whether it is registered or required to be registered as a broker-dealer or investment adviser; and
3. Maintaining all records related to the relationship between Coastal and each third-party consultant, including:
  - any RFPs and due diligence questionnaires completed for the consultant;
  - any contracts between Coastal and the consultant;
  - a list of all consultants to whose clients Coastal made presentations for the purpose of obtaining or retaining the client as an advisory client; and
  - all correspondence between Coastal and the consultant.

## **9.4 Form ADV Disclosure**

Form ADV (the registration statement form for investment advisers) does not require an investment adviser to disclose how it markets its services. Some investment advisers make a general statement in the Firm's Brochure (Part 2A) that they market their advisory services. Part 2A, however, does require an investment

adviser to describe any arrangement where an investment adviser directly or indirectly compensates any person for client referrals.

Coastal will state in its Brochure (Part 2A) that it, from time to time, advertises its advisory services (if true), and will describe any referral arrangements of which it is a participant.

## 9.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(11), 204-2(a)(15), 204-2(a)(16) and 206(4)-3]

In the "Marketing" section of its books and records, Coastal will maintain:

- A copy of each notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication that Coastal circulates or distributes, directly or indirectly, to 10 or more persons (other than persons connected with Coastal, and if such notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication recommends the purchase or sale of a specific security and does not state the reasons for such recommendation, a memorandum of Coastal indicating the reasons therefore (Rule 204-2(a)(11));
- All written acknowledgements of receipts obtained from clients pursuant to Rule 206(4)-3 (the cash solicitation rule) and copies of the disclosure documents delivered to clients by solicitors pursuant to Rule 206(4)-3 (Rule 204-2(a)(15));
- All accounts, books, internal working papers, and any other records or documents that are necessary to form the basis for or demonstrate the calculation of the performance or rate of return of any or all managed accounts or securities recommendations in any notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication that Coastal circulates or distributes, directly or indirectly, to 10 or more persons (other than persons connected with Coastal); provided, however, that, with respect to the performance of managed accounts, the retention of all account statements, if they reflect all debits, credits, and other transactions in a client's account for the period of the statement, and all worksheets necessary to demonstrate the calculation of the performance or rate of return of all managed accounts shall be deemed to satisfy the requirements of this paragraph (Rule 204-2(a)(16)). This means that records supporting the entire measuring period of the advertised performance must be maintained. For example, if Coastal advertises performance for each of the most recent 10 years, supporting records for each year must be maintained; and
- If Coastal shows certain, but not all, past recommendations, it will maintain records showing criteria used to select the limited number of past recommendations presented in an advertisement.

# 10 EMPLOYEES

## Introduction

[Investment Advisers Act of 1940 Section 204A]

If an employee of an investment adviser meets the definition of investment adviser representative, he or she must register with the appropriate state. Employees of, and other persons associated with, an investment adviser that make investment recommendations or participate in the determination of the recommendation, ordinarily will meet the definition of investment adviser representative. Failure to register as such can result in state regulatory proceedings against the adviser and allow the client to disaffirm an investment recommended by the unregistered employee.

Employees, officers and directors of Coastal may from time to time have knowledge of present or future client transactions and, in certain circumstances, the power to influence transactions made by or for clients. If such individuals engage in personal transactions in securities that are eligible for investment by clients, these individuals could be in a position where their personal interests conflict with the interests of clients. The Code of Ethics is designed to ensure that employees with access to information about client trades will not adversely impact the trade or trades recommended for clients. For example, no employee may "front-run" a client's trade. In addition, employees may not take advantage of investment opportunities that rightfully belong to the clients. Rule 204A-1 under the Investment Advisers Act of 1940 will require advisers to have a code of ethics by January 7, 2005.

An investment adviser or an employee may, from time to time, come into possession of inside information about a publicly traded company. The Investment Advisers Act of 1940 and Insider Trading and Securities Fraud Enforcement Act of 1988 ("ITSFEA") require an investment adviser to establish, maintain and enforce written policies and procedures designed to prevent the misuse of material, nonpublic (inside) information.

An investment adviser that approves an employee's participation in outside business activities may assume certain critical regulatory or other responsibilities associated with such activities. For example, an investment adviser that approves an employee's proposal to offer advisory services or sponsor a hedge fund may assume regulatory responsibility over such activities. By failing to assume such responsibility, the investment adviser may potentially violate the securities and other laws, including the responsibility to exercise appropriate supervision over the person.

A variety of organizations offer investment adviser representatives the opportunity to earn designations.

Adviser representatives typically must pass some examination or have some other qualification to earn a designation. Once they have a designation(s), adviser representatives often have continuing education or other responsibilities in order to maintain their designations.

## 10.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Section 204A; Investment Advisers Act of 1940 Form ADV]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Investment Management</li><li>• Legal</li><li>• Operations</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Each time Coastal hires a new employee</li></ul>

	<ul style="list-style-type: none"> <li>• Each time an employee places a securities trade or comes into possession of inside information</li> <li>• Periodic comparison employee trades with employee brokerage statements</li> </ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"> <li>• Form ADV under the Investment Advisers Act of 1940</li> <li>• Section 204A of the Investment Advisers Act of 1940</li> </ul>
<b>Records</b>	<ul style="list-style-type: none"> <li>• Records of employee trades</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Employee Compliance Procedures annually.</li> </ul>

## 10.2 Policy

It is Coastal's policy to carefully screen candidates for employment in an effort to determine whether the candidate has demonstrated the ability to comply with laws and his or her employers' internal policies, to require all trades by its employees who are access persons to be subject to Coastal's employee trading procedures, to implement procedures designed to prevent its employees from engaging in prohibited insider trading, and to prohibit employees who are not registered as investment adviser representatives to engage in activities that would require them to register as such with any state.

## 10.3 Procedures

### 10.3.1 New Employees

The Chief Compliance Officer will carefully screen employee candidates in the following manner:

- Request each employee candidate to complete an on-boarding package;
- Review completed on-boarding package for applicant answers that may disqualify the applicant (e.g., criminal conviction), and perform independent background checks;
- Interview the employee and/or check employment references in an effort to determine whether the candidate has demonstrated the ability to comply with laws and his or her employers' internal policies;
- Determine if the new employee's proposed activities will cause him or her:
  - to meet the definition of investment adviser representative, subjecting the new employee to registration with the appropriate state(s);
  - to be required to obtain any other licenses (e.g., an insurance license);
- Determine whether the applicant is an access person, investment adviser representative and/or supervised person;
- Enter into an employment contract or advisor agreement with the employee if appropriate;
- Enter information about the new employee into Coastal's computer or records system;
- Open up and maintain an individual employee file for each new employee that includes an "outside activities" section;
- File Form U-4 and other applicable registration materials in the appropriate state(s) for employees that meet the definition of investment adviser representative pursuant to the procedures set forth in the "Registration & Filings" chapter of this Manual;
- Amend Coastal's Schedule D of Form ADV (if necessary) to indicate the name of the new employee (e.g., if the new employee is an officer or control person); and
- Require each person to execute a written certification that he or she will comply with this Compliance Manual, including the Code of Ethics and Insider Trading Procedures.

New employees may not work in a capacity that requires registration until they successfully fulfill all registration requirements. The Chief Compliance Officer will be consulted in advance of each new position.

## **10.3.2 Code of Ethics**

### **10.3.2.1 Standard of Business Conduct**

The Code of Ethics is based on the principle that Coastal and each of its employees owe a fiduciary duty to its clients and a duty to comply with federal and state securities laws and all other applicable laws. These duties include the obligation of Access Persons to conduct their personal securities transactions in a manner that does not interfere with the transactions of any client or otherwise to take unfair advantage of their relationship with clients. In recognition of this duty, Coastal hereby adopts the following general principles to guide the actions of the Access Persons:

- Access Persons have the duty at all times to place the interests of clients first.
- Access Persons have the duty to conduct all personal securities transactions in a manner consistent with these Procedures and in such a manner to avoid any actual or potential conflict or abuse of a position of trust and responsibility.
- Access Persons must refrain from actions or activities that allow a person to profit or benefit from his or her position with respect to a client, or that otherwise bring into question the Access Person's independence or judgment.
- All personal securities transactions by Access Persons must be accomplished so as to avoid even the appearance of a conflict of interests with the client.

These duties extend beyond fiduciary obligations, personal trading and compliance with laws discussed above. Each employee additionally is obligated to:

- Share his or her knowledge with others and present factual and objective information to management to the best of his or her ability.
- Accept full responsibility for work that he or she performs.
- Not misuse the authority entrusted to in him or her.
- Be honest in all his or her professional relationships.
- Take appropriate action in regard to any illegal or unethical practices that come to his or her attention.
- Cooperate with others in achieving understanding and in identifying problems.
- Not use or take credit for the work of others without specific acknowledgement and authorization.
- Insure that the products of his or her work are used in a socially responsible way.
- Never misrepresent or withhold information that is germane to a problem or situation of public concern.
- Not use knowledge of a confidential or personal nature in any unauthorized manner or to achieve personal gain.
- Make every effort to ensure that he or she has the most current knowledge and that the proper expertise is available when needed.
- Avoid conflict of interest and insure that Coastal is aware of any potential conflicts.
- Present a fair, honest, and objective viewpoint.
- Protect the privacy and confidentiality of all information entrusted to him or her.

### **10.3.2.2 Definitions of Terms in the Code of Ethics**

[SEC Securities Exchange Act of 1934 Section 16; Investment Company Act of 1940 Section 2(a)(9); Investment Advisers Act of 1940 Section 202(a)(18)]

- "Access Person" means:
  - each director, partner or officer of Coastal;

- each supervised person of Coastal who, (i) has access to nonpublic information regarding any clients' purchase or sale of securities, or nonpublic information regarding the portfolio holdings of any mutual fund advised or distributed by Coastal or an affiliate, or (ii) is involved in making securities recommendations to clients, or who has access to such recommendations that are nonpublic; and
- any spouse, minor child, and any relative resident in the household of a person named above.
- "Automatic Investment Plan" means a program in which regular periodic purchases (or withdrawals) are made automatically from investment accounts in accordance with a pre-determined schedule or allocation. An Automatic Investment Plan includes a dividend reinvestment plan.
- "Beneficial Ownership" means a direct or indirect pecuniary interest in a security, as set forth in Section 16 of the Securities Exchange Act of 1934, as amended. A person, for example, would be deemed to have a beneficial ownership of securities if he or she directly owns the securities, his or her spouse or minor children own the securities, or if such person, by contract, arrangement, understanding or relationship, has sole or shared voting or investment power over the securities held by such person.
- "Client" means any person who has entered an Investment Advisory Contract with Coastal.
- "Control" means the power to exercise a controlling influence over the management or policies of a company. A person is deemed to exercise control who has a 25% or more ownership position of a company's equity securities, or otherwise controls a company as defined in Section 2(a)(9) of the Investment Company Act of 1940.
- "Market Timing" means frequent buying or selling shares of the same mutual fund, or buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing.
- "Related Security" means any security convertible within sixty (60) days into a Security and any future or option on the Security.
- "Security" means a security as defined in Section 202(a)(18) of the Investment Advisers Act of 1940, as amended, except that it does not include:
  - direct obligations of the U.S. Government;
  - any security issued by a mutual fund (other than a mutual fund advised by Coastal or an affiliate) or a unit investment trust that invests exclusively in one or more unaffiliated mutual funds;
  - interests in a 529 Plan, provided Coastal nor any companies under its common control manage, distribute, market or underwrite the 529 Plan or the investments and strategies underlying the 529 Plan; and
  - any money market fund securities or money market instruments, including bankers' acceptances, certificates of deposit, and commercial paper.
- "Supervised Person" means employees and other persons who provide advice on behalf of Coastal and are subject to the supervision and control of Coastal.

### **10.3.2.3 Prohibitions**

#### **10.3.2.3.1 Investment Recommendations**

No Access Person shall in connection with the recommendation of a Security held or to be acquired or sold by any Client shall:

- employ any device, scheme or artifice to defraud such Client;
- make any untrue statement of a material fact or omit to state a material fact necessary in order to make the recommendation made not misleading;
- engage in any act, practice, or course of business that would operate as a fraud or deceit upon such Client; or
- engage in any manipulative practice with respect to such Client.

#### **10.3.2.3.2 Investment Opportunity**

An Access Person must offer an investment opportunity first to clients before he or she or Coastal may act on that opportunity.

#### **10.3.2.3.3 Market Timing and Short-Swing Trading**

No employee may engage in prohibited market timing of the shares of a mutual fund without approval from the Chief Compliance Officer, and such Chief Compliance Officer shall withhold such approval if the mutual funds are affiliated with Coastal.

#### **10.3.2.3.4 Interest in Securities**

No Access Person shall recommend any transaction in any Securities by any Client without having disclosed his or her interest, if any, in such Securities or the issuer thereof, including:

- the Access Person's Beneficial Ownership of any Securities of such issuer;
- any contemplated transaction by the Access Person in such Securities;
- any position the Access Person has with such issuer; and
- any present or proposed business relationship between such issuer and the Access Person (or a party that the Access Person has a significant interest in).

#### **10.3.2.3.5 Client Trade Information**

No Access Person shall reveal any proposed transactions in Securities by one Client to another Client, any employee of Coastal, or any other person.

#### **10.3.2.3.6 IPOs and Private Placements**

No Access Person may:

- acquire a Security in an initial public offering or a private placement without the written consent of the Chief Compliance Officer;
- acquire a Security in an initial public offering if he or she is a registered representative of a broker-dealer;
- make a wrongful arrangement or a wrongful quid pro quo of any kind with clients in exchange for IPO allocations; or
- share profits or losses with a client who receives an IPO allocation or allocations.

### **10.3.2.4 Reporting of Securities Trades and Holdings**

#### **10.3.2.4.1 Access Person Reporting**

Each Access Person shall report on the Securities Transaction Report Form all transactions in Securities in which such Access Person has acquired any direct or indirect Beneficial Ownership, **unless** such report would duplicate information contained in trade confirmations or account statements that Coastal holds in its records,

provided Coastal has received those confirmations or statements not later than 30 days after the close of the calendar quarter in which the transaction takes place.

#### **10.3.2.4.2 Report Deadline**

Reports shall be filed with the Chief Compliance Officer within twenty days after the end of each calendar quarter. An Access Person need not file a report covering a quarterly period if he or she had no personal securities transactions during that quarter.

#### **10.3.2.4.3 Securities Transaction Report Form**

The Securities Transaction Report Form filed pursuant to this Section shall contain the following information:

- Name of the Access Person making the report;
- Date of the transaction;
- Title and number of shares involved;
- Exchange ticker symbol or CUSIP of shares;
- Principal amount of each Security involved;
- Nature of the transaction (buy or sell);
- Price at which transaction was effected; and
- Name of the broker-dealer, bank or other financial institution through whom the transaction was effected.

Each Access Person must file a report of his or her personal securities holdings (i) at the time the person became an Access Person; and (ii) at least once a year thereafter in the Annual Securities Transaction Report Form. Such reports must be current as of a date not more than 45 days prior to the individual becoming an Access Person or the date the Annual Securities Transaction Report is submitted.

#### **10.3.2.4.4 Broker-Dealer Confirmations and Account Statements**

Every Access Person who opens an account at a broker-dealer or other financial institution to personally trade securities shall:

- immediately notify the Chief Compliance Officer of the opening of such account; and
- send a Broker Confirmation Letter to each such broker-dealer or other financial institution directing them to provide Coastal with a duplicate copy of each confirmation and periodic account statement issued to such Access Person.

Access persons may open an account to personally trade securities only at those broker-dealers or other financial institutions that agree to electronically deliver to Coastal all trade information of the Access Person.

#### **10.3.2.4.5 Private Placements**

Each Access Person who owns Securities acquired in a private placement shall disclose such ownership to the Chief Compliance Officer if such person is involved in any subsequent consideration of an investment in the issuer by a Client.

#### **10.3.2.5 Reporting Violations**



An employee of Coastal must promptly report to the Chief Compliance Officer any violations of the Code of Ethics. Any employee of Coastal who is the subject of a Code of Ethics violation report and who retaliates against the reporting employee shall be subject to serious sanctions, including termination of employment. Reports of violations will be investigated and appropriate actions will be taken by the Chief Compliance Officer. When investigating a possible violation, of Coastal's personal trading rules, the Chief Compliance Officer will give such person an opportunity to supply additional information regarding the transaction in question.

### 10.3.2.6 Review

- **Periodic Review.** The Chief Compliance Officer or designated supervisor shall periodically review and compare reported transactions of random Access Persons in Securities with the transactions of:
  - the Access Person indicated on his or her confirmations and account statements;
  - comparable clients of Coastal;
  - the securities on any watch or restricted lists; and
  - the securities of issuers recently engaged in making IPOs.
- **Review Methodology.** The above reviews may be accomplished through review of flags generated by Smart Station supervision and review of the Access Person's transactions, or as part of a branch inspection.
- **Suspected Violations.** If the Chief Compliance Officer suspects that an Access Person has violated these Procedures, he or she shall investigate the alleged violation, and, as a part of that investigation, allow the Access Person an opportunity to explain why the violation occurred or did not occur.
- **Violation Report.** If the Chief Compliance Officer concludes that an Access Person has violated these Procedures, he or she shall submit a report of such violation, his or her investigation of such violation, and his or her recommendation on what steps should be taken to address such violation, including recommending sanctions against the violator.
- **Patterns.** The Chief Compliance Officer shall periodically review trades of the Access Person in past periods in an effort to find patterns or deviation from patterns (e.g., a spike in personal trades).
- **Sanctions.** The Chief Compliance Officer will recommend the imposition of the following sanctions either in ascending order or a combination of sanctions depending on the facts and circumstance of the Code of Ethics violation:
  - Warning;
  - Disgorgement of profit and donating profit to a charity;
  - Withdrawal of the privilege to make personal trades;
  - Monetary fine;
  - Letter of reprimand to chief executive officer of Coastal about the misconduct; and
  - Termination of employment.

### 10.3.2.7 Access Person List

The Chief Compliance Officer shall maintain a list of employees and officers of Coastal who are "Access Persons."

### 10.3.2.8 Sanctions

Upon discovering a violation of these Code of Ethics, the senior management of Coastal may impose such sanctions as they deem appropriate, including, but not limited to, forfeiture of future discretionary compensation or profit, canceling trades, selling positions at a loss, internal reprimand, a letter of censure, fine or suspension or termination from employment.

### **10.3.2.9 Relying Adviser Code of Ethics**

This Code of Ethics applies to and is administered for all investment advisers related to Coastal that are filing advisers or relying advisers as though all of such advisers are a single entity. In so applying and administering this Code of Ethics, Coastal may take into account the fact that a relying adviser may be operating in a jurisdiction that has obligations that differ from the filing adviser or another relying adviser.

### **10.3.3 Insider Trading Procedures**

Coastal's Insider Trading Procedures are designed to prevent the misuse of material, nonpublic information by Coastal and its officers, directors and employees.

#### **10.3.3.1 Insider Trading Policy Statement**

Coastal has adopted these Insider Trading Policy and Procedures that apply to all Covered Persons. A Covered Person is defined to be:

- Employee of Coastal;
- Officer of Coastal;
- Director of Coastal; and
- Officer or employee of each affiliated entity or subsidiary of Coastal.

This Policy addresses both:

- Non-public information related to client trades and other advisory activities of Coastal (which is primarily addressed by Coastal's Code of Ethics); and
- Non-public information related to issuers of public securities.

#### **10.3.3.2 Prohibited Insider Trading**

Any prohibited insider trading by a Covered Person violates these Procedures, as well as the federal securities laws. The term "insider trading" is not defined in the federal securities laws, but generally is used to refer to the use of material, non-public information to trade in securities (whether or not one is an "insider" of the company that issued the securities) or the communication of material, non-public information to others who may trade on the basis of such information.

It is generally understood that, with respect to Coastal, Covered Persons are prohibited from doing the following:

- Trading in any of the securities of Coastal (if it has publicly issued any securities) in any capacity (including derivative securities based on Coastal's securities) while in possession of material, non-public information concerning Coastal.
- Having others trade on the Covered Person's behalf while the Covered Person is in possession of material, non-public information.
- Communicating non-public information concerning Coastal to others who may then trade in securities of Coastal or pass on the information to others who may trade in such securities. Such conduct, also known as "tipping," results in liability for the insider of Coastal who communicated such information (even if such insider does not actually trade himself) and for the person who received the information if he acts on such information or passes it on to others who may act on it.
- Trading in securities on the basis of non-public information received directly or indirectly from an insider with the knowledge that the insider both breached his or her fiduciary duty by tipping the information and benefited tangibly from breaching the fiduciary duty.

- Placing orders on a security for the Covered Person's own account while taking advantage of advance knowledge of pending orders from Coastal's clients (personal trades of Covered Persons are covered by Coastal's Code of Ethics).

### **10.3.3.3 Insider**

The concept of "insider" is broad and generally includes any person who possesses material, non-public information about Coastal (or a public issuer) and who has a duty to Coastal (or a public issuer) to keep this information confidential. In the case of Coastal, "insiders" include the Covered Persons. In addition, a person can be a "temporary insider" if he or she enters into a special confidential relationship to serve any such entity and as a result is given access to information in connection with such service. Persons who can become temporary insiders include, among others, Coastal's (or public issuer's) attorneys, accountants, consultants and investment bankers.

### **10.3.3.4 Materiality**

Trading while in the possession of inside information is not a basis for liability unless the information is "material." Generally, information is "material" if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision, or if it is reasonably certain to have an effect on the price of an issuer's securities.

Although there is no precise, generally accepted definition of materiality, information is likely to be "material" if it relates to:

- Dividend or earnings results or expectations
- Financial forecasts
- Write-downs or write-offs of substantial assets
- Significant additions to reserves for bad debts or contingent liabilities
- Expansion or curtailment of significant operations
- Major personnel changes
- Proposals or agreements involving a joint venture, merger, acquisition, divestiture or leveraged buy-out
- Major financing developments
- The gain or loss of important contracts or clients
- Criminal indictments or material civil litigation or government investigations
- Labor disputes including strikes or lockouts
- Substantial changes in accounting methods
- Debt service or liquidity problems
- Bankruptcy or insolvency
- Extraordinary management developments
- Public offerings or private sales of debt or equity securities
- Calls, redemptions or purchases of securities

"Inside" information could be material because of its expected effect on the price of the issuer's securities, the securities of another company, or the securities of several companies. Moreover, the resulting prohibition against the misuse of "inside" information includes not only restrictions on trading in the issuer's securities, but restrictions on trading in the securities of other companies affected by the inside information as well (e.g., in the event the issuer was in negotiations to acquire a public company).

### **10.3.3.5 Non-Public (Inside) Information**

Information qualifies as "non-public" or "inside" information if it is information that has not been made available to investors generally. This includes information received from sources or in circumstances indicating that the information has not been circulated generally.

At such time as material, non-public information is released to the investing public, it loses its status as "inside" information. For "non-public" information to become public information, however, it must be disseminated through recognized channels of distribution designed to reach the securities marketplace, and sufficient time must pass for the information to become available in the market.

To show that information is public, it generally is necessary to point to some fact that establishes that the information has become generally available, such as disclosure by the filing of a definitive proxy statement, Form 10-Q, Form 10-K, Form 8-K or other report with the SEC or disclosure by release to a national business and financial wire service (e.g., Dow Jones or Reuters), a national news service or a national newspaper (e.g., The Wall Street Journal or The New York Times). The circulation of rumors or "talk on the street," even if accurate, widespread and reported in the media, may not constitute the requisite public disclosure.

Non-public information disclosed only to institutional investors or to an analyst or a favored group of analysts may retain its status as "non-public" information, the use of which is subject to insider trading laws. Similarly, partial disclosure does not constitute public dissemination. So long as any material component of the "inside" information has yet to be publicly disclosed, the information is deemed "non-public" and may not be traded upon.

### **10.3.3.6 Tender Offers**

No Covered Person while in possession of material, nonpublic information regarding a tender offer (usually related to a merger or acquisition involving an acquiring company and a target company) received from the tender offeror or anyone acting on behalf of the tender offeror or tender offeree may trade on such information until the information is publicly disclosed.

### **10.3.3.7 Monitoring Insider Trading**

The Chief Compliance Officer periodically will review employee trades and Firm trades on behalf of clients to verify compliance with Coastal's insider trading procedures, and attempt to detect insider trading. Coastal recognizes that insider trading may occur both at the employee-level and the firm-level, with the latter type of activity occurring because of Coastal's (or individual portfolio manager's) desire to increase the performance of his or her advisory accounts.

Monitoring for insider trading shall include:

- Comparing employee trades with trades by Coastal's advisory accounts and securities listed on "Restricted" and "Watch" lists;
- At least quarterly, generate a list of the top ten most profitable trades made by Coastal on behalf of clients and an employee's account and determine whether any of the issuers whose securities were traded were: (1) the subject of any of news stories; or (2) had issued press releases during the relevant period.

Coastal will make reasonable inquiries into and investigate for possible misuse of material, non-public information transactions by any employee, particularly those transactions in restricted list or watch list securities. The need for or extent of such an inquiry or investigation of an employee transaction will be determined by reasonable criteria, including consideration of the timing or unusual nature of the transaction, such as whether the employee traded on a short-term basis or in a size or dollar amount larger than his normal trading pattern.

Any investigations initiated will be documented. At a minimum, the investigation record shall include:

- the name of the security;

- the date the investigation commenced;
- an identification of the accounts involved;
- underlying investigative records (e.g., any analyses, interoffice memorandums and employee statements); and
- a summary of the investigation disposition.

### 10.3.3.8 Insider Trading Employee Training/Education

The Firm shall provide all employees of Coastal with a copy of these procedures. All employees shall periodically receive training on these policies and procedures and on insider trading generally by: attending seminars or meetings providing education and training with respect to Coastal's insider trading policies and procedures and insider trading in general; or by receipt and review of written materials circulated by the Firm discussing these procedures and insider trading in general.

### 10.3.3.9 Expert Networks

The term "expert network" refers to firms that are in the business of connecting clients, principally institutional investors, with persons who are deemed to have special expertise in the client's area of interest. Experts can include academics, scientists, engineers, doctors, lawyers, suppliers, and professional participants in the relevant industry, including in some cases even former employees of the company of interest.

Coastal shall enter into arrangements with expert network consultants only pursuant to the following procedures:

- Coastal and any of its employees may not seek material, non-public information from an expert network consultant;
- Prior to communicating with an expert network consultant, Coastal will: (i) confirm that such expert network consultant has procedures governing its expert network activities, request a copy of such procedures and review such procedures; (ii) request a copy of and review the biographies of each non-clerical employee of the expert network consultant and consider the time frame since the expert network consultant was employed at a company where Coastal is considering investing; (iii) inquire who at the expert network consultant approves experts and what processes are employed for checking the backgrounds of experts; and (iv) ascertain the contractual arrangements between the expert network consultants and their experts, including the compensation arrangement;
- Any engagement with an expert network consultant shall be approved only if Coastal concludes that such network employs reasonable practices and compliance efforts, including a strong screening process with respect to employees;
- Prior to Coastal employee meeting or otherwise communicating with the expert network consultant, Coastal will inform the representative of the expert network consultant the following:
  - that the expert network consultant understands that Coastal does not wish to receive material, nonpublic information;
  - that the expert network consultant has not breached, and will not breach, any confidential agreement or legal duty that the expert network consultant has to any party;
  - that no one else has breached a legal duty in providing the information to the expert network consultant;
  - that the expert network consultant is not an employee, affiliate or supplier of the issuer that will be discussed on the call;
  - that the expert network consultant did not pay an employee, affiliate or supplier of the relevant issuer in order to obtain the information; and
  - that the information the expert network consultant plans to provide was not obtained directly or indirectly by anyone who would not be able to assent to each of the foregoing representations;

- A Firm employee will not meet or communicate with an expert network consultant: (i) until he or she has received pre-clearance from the Chief Compliance Officer of Coastal; and (ii) he or she has received training from Coastal on expert network consultants within a year of the proposed meeting;
- If an employee believes he or she has obtained material, non-public information from an expert network consultant, he or she shall promptly notify the Chief Compliance Officer and Coastal and such employee will refrain from trading any securities that are related to such information; and
- Coastal employee meeting with the expert network consultant will create and maintain written records of: (i) the interaction with the expert network consultant, (ii) identification of personnel the firm employee interacted with, (iii) the expert network consultant's primary scope or source of knowledge, and (iv) the topics covered.

These procedures supplement and are in addition to Coastal's insider trading procedures that appear in this manual, including the monitoring and surveillance that is designed to detect anyone trading a security on the basis of material, non-public information.

#### **10.3.3.10 Contacts with Financial Analysts**

From time to time, Firm personnel may meet with financial analysts who cover particular corporate issuers. Areas covered may include management, competitive position, earnings and other analysts' views. This information may be packaged in a variety of formats. Firm personnel may acquire such information in a variety of formats, including surveys.

No advisory personnel will trade or otherwise act on information about an analyst's sentiment until such information has been publicly disseminated.

#### **10.3.4 Employee Training Education [Effective Jan. 1 2022]**

The Firm has an overall goal to ensure that its Investment Adviser Representatives (IARs) receive continuing education and training on investment advisory regulations and related compliance topics relevant to their duties and obligations. In addition, certain IARs depending on their location and the location of the clients they serve may be subject to state initial and continuing education requirements. In such cases, the Firm will take steps to ensure that IARs complete the required number of credits of continuing education during each applicable reporting period (e.g., one year). The Firm believes that continuing education and training are vital so that IARs can competently and ethically serve Firm clients with whom they interact.

The Firm will retain only credible and professional competent vendors to provide employee training and education including verifying that they are deemed qualified by the North America Securities Administrators Association, Inc. (NASAA). When reviewing vendors, the Firm shall consider a number of factors including:

- Ability to meet the learning objectives and goals of the Firm's compliance training and education objectives;
- Quality of instructors and materials;
- Qualifications of instructors;
- Experience in delivering educational content, such as training or continuing education;
- Prior customer/student evaluations;
- Timeliness of content;
- Ability to track and report course/content completion; and
- Prior experience in the financial services industry.

The CCO will review the vendors and document his or her review of the successful vendor in a memorandum.

## **10.3.5 Outside Business Activities**

An Adviser Representative or employee of Coastal will be engaged in an outside business activity if he or she:

- serves as general partner, officer or employee of any business organization;
- receives compensation in any form from a business organization; or
- serves as a director of any business organization.

### **10.3.5.1 Adviser Representatives**

It is the policy of Coastal to require all investment adviser representatives to notify Coastal in writing of any employment or receipt of compensation outside their relationship with Coastal. The investment adviser representative may not proceed with the outside business activity until he or she receives written approval from Coastal.

To engage in an outside employment activity, an Adviser Representative and any other employee must complete an Outside Business Activity Form and submit the form to his/her supervisor and the Chief Compliance Officer. In the Outside Business Activity Form, the Adviser Representative or employee will provide:

1. the name and address of the outside business organization;
2. a description of the business of the organization;
3. the reasons why approval should be granted;
4. compensation (if any) to be received;
5. a description of the activities that will be performed; and
6. the amount of time per month that will be spent at the outside organization.

Each investment adviser representative must confirm, on an annual basis, any outside business activities with the Chief Compliance Officer.

### **10.3.5.2 Investment Clubs**

An Adviser Representative may neither become a member of an investment club nor make recommendations regarding securities for any investment club.

### **10.3.5.3 Review Procedures**

The Chief Compliance Officer will review the information supplied by each employee engaging in an outside business activity and independently verify that the information is correct, including the nature and the extent of the outside business activities and the employee's outside sources of income.

## **10.3.6 Designations**

### **10.3.6.1 Adviser Representative Responsibilities**

Adviser Representatives desiring to use designations must meet all requirements of the sponsor of such designations, including any continuing education responsibilities and fees. An Adviser Representative shall

immediately inform the Chief Compliance Officer if he or she no longer meets the requirements of a particular designation or is no longer in good standing with the sponsor of any designation.

### **10.3.6.2 Monitoring of Adviser Representative Use of Designations**

When an Adviser Representative elects to hold himself or herself out as having achieved a particular designation, the Chief Compliance Officer shall:

1. inform the Adviser Representative that he or she may not hold himself or herself out as achieving a particular designation unless he or she has received prior approval from the Chief Compliance Officer;
2. permit an Adviser Representative to use a particular designation only if the Chief Compliance Officer has verified that the Adviser Representative is authorized by the institution that sponsors such designation to use it;
3. become familiar with the rules and regulations of the institutions that sponsor designations regarding the proper use of such designations; and
4. periodically verify with such institution that the Adviser Representative is in good standing with its rules and regulations and current on any annual registration or other fees.

Adviser Representatives must be familiar with the rules and regulations of the institutions that sponsor designations regarding the proper use of such designations.

### **10.3.7 Adviser Representative Prohibited Activities**

In rendering advice and other investment management services to clients, an Adviser Representative may not:

- Communicate non-public information to clients in violation of the firm's Insider Trading Procedures;
- Render investment advice to a client that is based on rumor or speculation;
- Render legal or tax advice to the client;
- Fail to disclose known material facts about an investment;
- Initiate unauthorized transactions for client accounts;
- Fail to disclose conflicts of interests;
- Recommend securities or investment products that are unsuitable for the client;
- Directly or indirectly participate in gains or losses of a client's account;
- Permit personal investments to influence advice to a client;
- Disclose information about a client and his or her account to persons outside Coastal or its affiliates without the client's approval;
- Fail to notify the Chief Compliance Officer immediately about any client complaints;
- Provide advice or recommend a security or investment product to a client if the Adviser Representative does not have sufficient knowledge and information to support the advice or recommendation;
- Lend money to a client;
- Accept cash from a client for investment;
- Sign a client's name to any document, even if the client gives permission to do so;
- Settle client complaints independently;
- Accept money from a client as additional compensation for investment management services offered;
- Act as an agent for the client in a business transaction;
- Guarantee the performance of a client's investment or account or guarantee any security or investment product recommended to the client;
- Sign a client's name to any document;
- Borrow money or securities from a client;
- Agree to repurchase a security from a client;
- Share in a client's profits or losses of securities transactions through a joint account or otherwise;
- Assist a client in the borrowing of funds for investment, unless such assistance involves helping a client open up a margin account with a broker-dealer;



- Provide investment advice on a regular basis in a state where the Adviser Representative is not licensed;
- Make discretionary trades for a client who has not given Coastal written authority to make such discretionary trades;
- Fail to disclose any and all conflicts of interests to a client that arise in a given securities transaction;
- Advertise his or her services or those of Coastal without prior approval of the Chief Compliance Officer;
- Raise money for charitable or political organizations without prior approval from the Chief Compliance Officer;
- Become employed with another company or serve as a director of another company without prior approval from the Chief Compliance Officer;
- Purchase or sell securities while in possession of inside information about the issuer of such securities; or
- Give gifts to clients or receive gifts from clients, unless such gifts are of nominal value.

### **10.3.8 Legal or Regulatory Proceedings**

Any Adviser Representative shall immediately notify the Chief Compliance Officer if he or she becomes the subject of an investment advisory-related action involving:

- an investigation or governmental proceeding;
- any refusal of registration or injunction, censure, fine or other disciplinary action imposed by a regulatory body;
- any litigation or arbitration;
- any bankruptcy proceedings;
- any civil litigation;
- any arrest, summons, subpoena, indictment or conviction for a criminal offense; or
- any other event that might require disclosure to clients or disclosure on Form ADV.

When giving notice of a legal or regulatory proceeding, the Adviser Representative shall provide, at a minimum, the following information:

- Parties involved;
- Court or arbitration forum; and
- Nature of the proceeding.

### **10.3.9 Unregistered Employees**

The Chief Compliance Officer shall periodically review the responsibilities of each employee to verify whether such employee meets the definition of investment adviser representative. Any employee that does not meet the definition of "adviser representative" or is otherwise not registered as such shall be classified as an "Unregistered Employee."

#### **10.3.9.1 Permissible Activities**

Unregistered Employees may engage in the following investment-related activities:

- Contacting existing clients regarding clerical or administrative matters affecting the client's account;
- Extending invitations to presentations conducted by Adviser Representatives;
- Inquiring whether a prospective or existing client would like to discuss investments with an Adviser Representative;
- Discussing in general terms the types of investment management services offered by Coastal; and

- Asking prospective clients whether they wish to receive Coastal brochures and marketing materials.

### **10.3.9.2 Unregistered Employee Prohibited Activities**

Unregistered Employees may not discuss:

- investment products or services with clients;
- solicit clients; or
- make suitability determinations about clients.

### **10.3.9.3 Monitoring Unregistered Employees**

Coastal employs several back office employees who may not be registered, however, those employees are not in positions involving producing advisers and are therefore not at risk of violating this section. Coastal's independent contractor Advisers may engage their own employees who are subject to this section. With respect to such Unregistered Employees and their immediate supervisors, Coastal will:

- Periodically monitor Unregistered Employees to ensure that they do not engage in prohibited activities;
- Conduct a background investigation on each Unregistered Employee;
- Designate one or more adviser in each branch where Unregistered Employees work to supervise such unregistered employees;
- Provide periodic training and instruction to Unregistered Employees that specifically addresses the limitations of such persons' activities, the regulatory consequences of exceeding those limitations; and
- Compensate such Unregistered Employees only on the basis of salary or an hourly wage.

### **10.3.9.4 Part-Time Employment**

An unregistered employee, with the approval of the Chief Compliance Officer, may engage in part-time employment for another organization, provided that such employment:

1. is not related to investment management, securities or a similar business;
2. is not performed during the normal hours of Coastal while working for Coastal; and
3. does not conflict with the employee's duties for Coastal.

### **10.3.10 Employees Who Are Registered Representatives of Broker-Dealers**

Any employee who is licensed as a registered representative ("Registered Representative Employee") of a broker-dealer ("Broker-Dealer") other than Coastal's affiliate, Coastal Equities, Inc., must follow the procedures set forth below:

- The Registered Representative Employee must disclose in writing to Coastal his or her employment at the Broker-Dealer;
- The Registered Representative Employee must disclose in writing to the Broker-Dealer his or her employment at Coastal;
- The Registered Representative will not act in such capacity until it has received written approval from Coastal to engage in such activity;
- The Registered Representative and Coastal understand that the Broker-Dealer will and must supervise all advisory activities of the Registered Representative in which the Registered Representative is participating in a transaction for an advisory client;

- Coastal will confirm with the Broker-Dealer (e.g., earning a commission) that the Registered Representative Employee, pursuant to FINRA Conduct Rule 3040, has received written approval to be employed by Coastal;
- Coastal will assist the Broker-Dealer with its record keeping requirements of the Registered Representative with respect to advisory activities related to securities transactions made on behalf of the client; and
- Coastal shall consult with compliance personnel at the Broker-Dealer regarding how each firm plans to fulfill their supervisory duties over the Registered Representative Employee's activities.

### **10.3.11 Electronic Communications**

#### **10.3.11.1 Business Purposes**

Employees are to make electronic communications via Coastal's e-mail and other electronic communication systems primarily for business purposes. A minimal amount of personal communications that is not directly related to the employee's role in Coastal is acceptable. Employees are expected to use good judgment and limit the frequency of such use, including the files sent and received.

#### **10.3.11.2 Definition of Electronic Communications**

Electronic communications include:

- Electronic Mail (e-mail)
- Bloomberg E-Mail
- Texts
- Communicating via Social Media
- Video chat
- Internet Telephone
- Facsimile (Fax)
- File Transfer Protocol (FTP)
- Electronic Bulletin Boards
- Chat Rooms
- Instant Messaging

#### **10.3.11.3 Business Communication Standards**

Employees using Coastal's electronic communication systems must follow appropriate business communication standards. Employees may not send or receive communications that are inappropriate, obscene, discriminatory, threatening or otherwise offensive. Coastal shall permit employees to use a form of electronic communication or type of electronic communication device only if Coastal is able to record or otherwise capture hard copies or electronic copies of all such electronic communications.

Prior to sending an e-mail, an employee of Coastal shall consider the following:

- Put yourself in the position of the person receiving the electronic communication, ask yourself if there is language in the electronic communication that could be misinterpreted, offensive or embarrassing to the recipient or a future reader;

- Do not use emotional language in the electronic communication;
- Know your audience - only send your electronic communication to relevant parties;
- Be sure to know the consequences of hitting the "reply to all" selection;
- Assume that an unintended recipient will read your message;
- Always use spell check;
- Proofread your electronic communication prior to sending it;
- Refrain from gossip or participation in any destructive electronic communications;
- Refrain from engaging in debates in electronic communications; and
- Use your judgment if the conversation would be better continued in person.

#### **10.3.11.4 Electronic Mail**

All outgoing e-mail communications transmitted through Coastal 's e-mail system must automatically include a standard disclosure regarding Coastal 's identity and disclaimer substantially similar to the following:

"This is not an investment recommendation or a solicitation to become a client of the firm. Unless indicated, these views are the author's and may differ from those of the firm or others in the firm. We do not represent this is accurate or complete and we may not update this. Past performance is not indicative of future returns. For additional information and important disclosures, contact me or [Phone Number/Web Address]. You should not use e-mail to request or authorize the investment in any security or instrument, or to effect any other transactions. We cannot guarantee that any such requests received via e-mail will be processed in a timely manner. This communication is solely for the addressee(s) and may contain confidential information. We do not waive confidentiality by mistransmission. Contact me if you do not wish to receive these communications."

#### **10.3.11.5 Restrictions on Unsolicited E-Mails**

Federal law imposes restrictions on commercial e-mail, particularly unsolicited "mass" e-mail messages. "Commercial electronic mail" includes any electronic mail message primarily for the purpose of sending a commercial advertisement or promotion of a commercial product or service. It does not include electronic mail relating to transactions or where there is a relationship between the sender and the recipient.

Recipients of commercial e-mail must be provided the opportunity to "opt-out" and not receive future e-mails. Anyone receiving notification from a customer or anyone else asking not to receive electronic mail, must forward that information to the Chief Compliance Officer for adding to Coastal 's "Do-Not-Email" list.

Senders of commercial e-mail may not:

- Use false or misleading e-mail header information or deceptive subject headings or otherwise deceive the recipient regarding the sender's address.
- Without prior authorization, use computers owned by others to transmit messages.
- Register for an e-mail address or domain name using materially false information or falsely represent themselves to be the registrants for Internet protocol addresses.
- Use "address harvesting" or "dictionary attacks" to obtain e-mail addresses from the Internet.
- Use automated means to create multiple e-mail addresses from which to send commercial e-mails.

Each commercial e-mail must include clear and conspicuous identification that the message is an advertisement or solicitation; a valid physical postal address of the sender; and a valid return address or other method for the recipient to "opt-out" from receiving further e-mails.

#### **10.3.11.6 E-Mail Collection and Retention Procedures**

Because Coastal recognizes that many records it is required to maintain by law are in e-mail form, its employees will comply with the following e-mail collection and retention procedures.

#### **10.3.11.6.1 E-Mail Definition**

Any e-mail collected or maintained pursuant to these procedures shall include:

- Content of the e-mail, including text and e-mail addresses in the address fields; and
- Data format of the e-mail, including support to display any attachment.

#### **10.3.11.6.2 E-Mail Capture**

Coastal shall capture all internal (e.g., from one employee to another) and external (e.g., from a client to an employee) e-mail received and sent by employees by:

- Using software that automatically captures the messages from the server during the routing process; or
- Some other method that ensures the prompt and complete recapture of e-mails.

#### **10.3.11.6.3 Archiving E-Mails**

Coastal shall archive all internal and external e-mails received and sent by employees in an electronic storage medium that, at a minimum:

- Ensures that the e-mail is maintained in a non-rewritable and non-erasable media; and
- Assigns a unique ID to the original e-mail and any duplicates of the e-mail.

#### **10.3.11.6.4 Indexing E-Mails**

Coastal shall prepare an index or indexes of all archived e-mails.

#### **10.3.11.6.5 Accessing E-Mails**

Coastal will archive e-mails on a system that:

- Allows immediate access to e-mails and indexes of e-mails and the ability to immediately download and produce copies of those e-mails and indexes;
- Facilitates the location of particular e-mails, categories of e-mails (e.g., a range of dates), or indexes for production to regulatory inspectors or other persons;
- Limits access to archived e-mails via passwords or other methods to a limited number of authorized employees ("Authorized Persons") so as to minimize the possibility of the destruction or corruption of archived e-mails; and
- Prohibits a non-Authorized Person from searching for, opening, viewing, deleting, or altering an archived e-mail without (i) the permission of an Authorized Person; and (ii) a legitimate business purpose for taking such action.

#### **10.3.11.6.6 E-Mail Audit Trail**

Coastal shall maintain a system that is designed to preserve the integrity of the archived e-mails by, at a minimum, creating an audit trail or records of:

- Inputs of e-mails;
- Changes or alterations to archived e-mails;
- Access to archived e-mails (e.g., time, date and name of person accessing the e-mail); and
- Destruction of e-mails.

#### **10.3.11.6.7 E-Mail Destruction**

Coastal shall destroy e-mails and copies of e-mails promptly after the expiration of any applicable record-retention policy and requirements set forth in the Recordkeeping section of this manual. As described in that section of the manual, records related to governmental investigations, lawsuits and similar matters may not be destroyed.

#### **10.3.11.6.8 E-Mail Review**

In an attempt to monitor the compliance of employees with Coastal 's e-mail policy and to detect possible fraudulent or other improper activities, the Chief Compliance Officer or supervisors shall periodically review email of representatives assigned to them. Such review includes email flagged by software through a keyword search engine. The CCO shall review the keyword parameters at least annually to determine its effectiveness.

#### **10.3.11.6.9 Non-Privacy of Employee Communications on Firm Systems**

Employees should have no expectation of privacy with respect to any electronic communications sent or received via Firm equipment because such communications are deemed to be Firm business records. Coastal has the capability and reserves the right to, for any reason, access, review, copy, delete, disclose and disseminate to any party any message sent, received or stored through Coastal 's e-mail system.

### **10.3.12 Gift and Entertainment Policy**

The following sections describe procedures designed to address gift and entertainment policies.

#### **10.3.12.1 General**

The giving and receiving of gifts and entertainment can create or appear to create a conflict of interest and place Coastal in a difficult position. Such activities can also interfere with the impartial discharge of Coastal 's responsibilities to its clients. An employee should never give a gift or provide entertainment where they are intended or designed to cause the recipient to act in a manner that is inconsistent with the best interests of the client or Coastal or that is illegal or would expose Coastal to any potential liability from a governmental authority or agency.

Entertainment is appropriate only when it is used to foster and promote business relationships for Coastal .

#### **10.3.12.2 Definitions**

"Business Contacts" include persons employed by the following types of service providers to Coastal or Hedge Funds:

- Brokers and securities salespersons
- Clients
- Consultants
- Suppliers
- Vendors
- Any other individual or organization with whom Coastal has or is considering a business or other relationship.

"Gifts" include:

- Gratuities
- Merchandise
- Use of property or facilities for weekends, vacations, trips, dinners and similar purposes (including transportation and lodging costs)

"Gifts" do not include: (1) a gift given in recognition of a life event (e.g., anniversary), provided the giver and recipient has a pre-existing personal or family relationship; and (2) items of nominal value (i.e., \$50 or less) such as pens, notepads, shirts and other items often containing a company's logo.

"Entertainment" includes:

- Social events
- Hospitality events
- Charitable events
- Sporting events
- Meals
- Dinners
- Theatrical shows

"Entertainment" does not include a social event or trip where each participant pays his or her expenses, including the allocable shared expenses, and the fair market value of any aspect of the trip (e.g., use of resort house and transportation).

### **10.3.12.3 Accepting Gifts**

An employee may accept a gift from a business contact of a company provided the aggregated value of all gifts received by that employee from all business contacts of the company does not exceed \$100 in any calendar year. An employee may not accept gifts, favors or other things of value that could influence the decision-making of the employee or make the employee feel beholden to the person or entity giving the gift or thing of value or providing the favor.

An employee may not accept gifts, favors or other things of value from broker-dealers that execute client trades unless Coastal establishes a pre-clearance mechanism for acceptance of gifts from broker-dealers and the chief compliance officer in consultation with outside counsel or third-party compliance consultants finds that such practices are consistent with Coastal 's fiduciary duties to clients and such practices are disclosed to clients.

The SEC issued the following guidance to investment company advisers in IM Guidance Update No. 2015-01 (February 2015), which on a general level is applicable to all advisers:

"The receipt of gifts or entertainment by fund advisory personnel, among others, may violate section 17(e)(1) of the 1940 Act and, in the staff's view, should be addressed by funds' compliance policies and procedures

under rule 38a-1. The particular policies and procedures concerning the receipt of gifts or entertainment that might be appropriate would depend on the nature of the adviser's business, among other considerations. Some funds and advisers might find a blanket prohibition on the receipt of gifts or entertainment by fund advisory personnel to be appropriate. Other funds and advisers might find other measures to be more appropriate, such as some type of a pre-clearance mechanism for acceptances of gifts or entertainment to assess whether they would be for the purchase or sale of any property to or for the fund and therefore prohibited under section 17(e)(1)."

#### **10.3.12.4 Giving Gifts**

An employee may give a gift to a business contact of a company provided the aggregated value of all gifts given by Coastal to all business contacts of the company does not exceed \$250 in any calendar year. An employee may not give gifts, favors or other things of value to a client with the intent of influencing the decision-making of the client or making the client feel beholden to the employee or Coastal especially if such client is acting as a fiduciary of or with power of attorney for another person.

#### **10.3.12.5 Accepting Entertainment**

An employee may accept entertainment from a business contact, provided the entertainment is:

- neither so frequent nor so extensive and lavish as to raise any question of impropriety;
- of a character such that both male and female guests would be comfortable attending; and
- legal and not offensive.

An employee may not accept entertainment from broker-dealers that execute client trades unless Coastal establishes a pre-clearance mechanism for acceptance of entertainment from broker-dealers and the chief compliance officer in consultation with outside counsel or third-party compliance consultants finds that such practices are consistent with Coastal 's fiduciary duties to clients and such practices are disclosed to clients.

The SEC issued the following guidance to investment company advisers in IM Guidance Update No. 2015-01 (February 2015), which on a general level is applicable to all advisers:

"The receipt of gifts or entertainment by fund advisory personnel, among others, may violate section 17(e)(1) of the 1940 Act and, in the staff's view, should be addressed by funds' compliance policies and procedures under rule 38a-1. The particular policies and procedures concerning the receipt of gifts or entertainment that might be appropriate would depend on the nature of the adviser's business, among other considerations. Some funds and advisers might find a blanket prohibition on the receipt of gifts or entertainment by fund advisory personnel to be appropriate. Other funds and advisers might find other measures to be more appropriate, such as some type of a pre-clearance mechanism for acceptances of gifts or entertainment to assess whether they would be for the purchase or sale of any property to or for the fund and therefore prohibited under section 17(e)(1)."

#### **10.3.12.6 Providing Entertainment**

An employee may provide entertainment to a business contact provided the entertainment is:

- neither so frequent nor so extensive and lavish as to raise any question of impropriety;
- of a character such that both male and female guests would be comfortable attending; and
- legal and not offensive.



### 10.3.12.7 Prohibitions

- Employees may not solicit any gift or entertainment.
- Employees may not accept cash or a gift certificate.
- Employees may not accept gifts or entertainment from Hedge Fund investors or prospective Hedge Fund investors.
- If an employee is invited to an entertainment event and neither the business contact or business contact colleague attend, the entertainment will be deemed a "gift" subject to the rules on accepting gifts.
- An employee may not accept any form of loan from a client.
- A portfolio manager, trader or any other employee may not accept a gift or form of entertainment from any broker-dealer or employee of a broker-dealer that executes trades for clients.
- An employee may not accept any gift or entertainment that might influence his or her investment decision or that might make the employee feel beholden to any person or firm.
- Gifts or entertainment should not be accepted from a business contact on a standing, recurring or on-going basis.
- Gifts should be received at the workplace and not at the employee's home.
- Unacceptable gifts should be returned to the giver.

### 10.3.12.8 Exceptions

The following are exceptions to Coastal 's gift and entertainment policy:

- If an employee believes that it would be appropriate to accept a gift worth over \$250 from a business contact or give a gift to a business contact worth over \$100, he or she must submit a written request to, and obtain written approval from, the Chief Compliance Officer containing the:
  - Name of the giver;
  - Name of the intended recipient;
  - Description of the gift;
  - Gift's monetary value;
  - Nature of business relationship; and
  - Reason the gift is being given.
- Gifts and entertainment offered or received in connection with a bona fide personal relationship are excluded from this policy.
- Gifts that have Coastal 's logo on it provided that the gift does not have a value that exceeds \$50. Gifts containing Coastal 's logo will not count towards the \$100 annual limit for giving gifts.

### 10.3.12.9 Reporting

Employees of Coastal must report any gift or entertainment that exceeds \$100 in value that is given or received to the Chief Compliance Officer within ten business days of the date of the receipt of the gift or entertainment. The report shall include:

- Name of the giver;
- Name of the intended recipient;
- Description of the gift or entertainment;
- Gift's or entertainment's monetary value;
- Nature of business relationship; and
- Reason the gift or entertainment is being given.

### 10.3.12.10 Monitoring Gift and Entertainment Practices

Coastal shall take the following steps to monitor employee and Firm gift and entertainment practices:

- Periodically review employee e-mails for key words that relate to gifts and entertainment (e.g., "tickets");
- Periodically review gifts and entertainment reports filed by employees for irregularities and questionable practices;
- Periodically compare a random sample of employee gifts and entertainment reports with travel and other expense reimbursements for inconsistencies;
- Periodically create a list of the top ten broker-dealers that have provided gifts and entertainment in terms of dollars to Firm employees and compare that list to the top ten broker-dealers in terms of commission earned on Firm client trades. Coastal shall scrutinize the brokerage practices of any broker-dealer when there is a high correlation between the two lists; and
- Investigate any issues uncovered by the aforementioned monitoring and take appropriate action to resolve such issues.

### 10.3.12.11 Special Rules for Certain Types of Clients or Registration Status

Coastal will comply with all applicable gifts and entertainment rules, which in large part depends upon the type of client and the regulatory status of Coastal :

Client Type	Firm Regulatory Status	Rule
	Broker-Dealer or Registered Representative	FINRA Rule 3060
	Member of New York Stock Exchange	NYSE Rule 350(a)(3)
Taft-Hartley (Union) Plan		Department of Labor: LM-10
Retirement Plan		ERISA Rule 406(b)(3)
Municipality		MSRB Rule G-20

### 10.3.13 Foreign Anti-Corruption Policy

These procedures are designed to prevent firm personnel from offering, promising, making, authorizing or providing (directly, or indirectly through third parties) any payments, gifts, or the transfer of anything of value to any person, including government officials and family members of the government officials, in any jurisdiction to influence or reward any action or decision for Coastal 's benefit. Neither Coastal 's funds nor funds from any other source, including the personal funds of an employee, may be used to make any such payment or gift on behalf of or for the benefit of Coastal in order to secure an improper business advantage.

#### 10.3.13.1 Bribing

Neither Coastal nor any of its employees may make cash payments or transfer property or other goods or services of value, both tangible and intangible, to bribe a Government Official. The following may be considered a bribe: a loan, a gift, entertainment, a generous contribution to a charity sponsored by a Government Official as a quid pro quo for government action, the promise of future payment, or the promise of future employment for the Government Official or a family member could be considered a bribe or improper payment that is prohibited under this Policy and applicable law.

### **10.3.13.2 Indirect Payments**

Prohibited payments under these procedures may not be made indirectly through a third party. Coastal and any of its employees may not pay a third party:

- knowing that a portion of the payment will be passed on to a Government Official; or
- with a belief that a portion of the payment will be passed on (or is substantially likely to be passed on) to a Government Official.

### **10.3.13.3 Improper Business Advantage**

An "improper business advantage" is an attempt to influence a Government Official in his or her official capacity to take action or refrain from taking action that benefits Coastal , including:

- approving Coastal as an adviser to the government entity;
- granting licenses related to investment services;
- acting on tax matters;
- making decisions in connection with government approval of a merger or acquisition; and
- other actions taken in an official capacity.

It should be noted that in some countries, local laws provide for an absolute prohibition on giving anything of value to Government Officials (without regard to whether it is in connection with an official act, or for the purpose of securing an improper business advantage).

### **10.3.13.4 Foreign Laws**

Coastal and its employees will comply with local foreign laws, in addition to complying with these Procedures, when giving anything of value to any public servant.

### **10.3.13.5 Government Official**

The term "Government Official" includes three general categories of people:

- Any person who is an officer, officeholder, full or part-time employee or representative of any (1) national, state, regional, provincial, city, county or other local government, (2) independent agencies of any government, (3) state-owned businesses or state-controlled businesses (e.g., a representative of a sovereign wealth fund or public pension fund), or (4) public education institutions and their endowments.
- Political parties, political party officials, and candidates for political office (e.g., an excessive campaign contribution to a political party, party official or candidate to procure an improper advantage can violate anticorruption laws).
- The employees of public international organizations (e.g., the European Union).

### **10.3.13.6 Prohibition Against Commercial Bribery**

Coastal and its employees may not offer, promise, or give, directly or indirectly, a financial or other advantage to another person:

- to induce a person to perform improperly a relevant function or activity,
- to reward a person for the improper performance of such a function or activity, or

- where the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity.

### **10.3.13.7 Third Party Intermediaries**

Brokers, promoters, finders, agents, consultants and other third party intermediaries may seek to secure business for Coastal . Such third parties might violate anticorruption laws, possibly subjecting Coastal to liability.

Coastal shall identify and maintain a list of all promoters, brokers, finders, consultants and advisers:

- that are reasonably expected to deal with government officials or with individuals or entities in a position to provide Coastal with a commercial business advantage, or
- whose compensation is contingent upon the consummation of a transaction that requires governmental consent; all third party intermediaries that likely will be dealing with any Government Officials in connection with the engagement by Coastal .

Coastal will not retain a third party intermediary to perform material services on its behalf unless:

- appropriate due diligence is conducted into the business, reputation and integrity of the third party reasonably designed under the circumstances to identify the existence of warning signs or red flags and such due diligence is adequately documented;
- the engagement of such third party is pursuant to a written agreement; and
- the contracts include suitable contractual covenants to the effect that the third party will not pay or offer to pay bribes or make other improper payments, and will comply with anticorruption standards.

### **10.3.13.8 Foreign Government Officials Entertainment**

These procedures govern entertainment provided by Coastal and its employees to counterparts who may in certain instances function as Government Officials, recognizing that the purpose of business entertainment gifts in some countries is to create goodwill and sound working relationships. Meals and entertainment with Government Officials may not exceed a value of \$250 per person in value without preapproval from the firm's Chief Compliance Officer.

Neither Coastal nor its employees may pay for meals, travel, lodging or entertainment of a Government Official for a corrupt purpose or to gain an improper advantage.

Meals or entertainment provided to a large group of persons at official firm functions that include representatives of multiple organizations are exempt from the \$250 per person limit, but should be reasonable given the occasion and otherwise acceptable in the jurisdiction.

### **10.3.13.9 Gifts to Government Officials**

These procedures govern the giving of gifts by Coastal and its employees to counterparts who may in certain instances function as Government Officials, recognizing that the purpose of business entertainment and gifts in some countries is to create goodwill and sound working relationships. A customary gift to, or received from, a Government Official may not exceed \$250 in value without preapproval from the firm's Chief Compliance Officer.

Coastal and its employees are prohibited from providing or receiving any gift of any value of any dollar amount if for purposes of improperly influencing a business dealing, including any gift that:

- is likely to significantly conflict with Coastal 's duties to its clients and investors,
- is inconsistent with customary business practices,

- is excessive in value,
- can be construed as a bribe or payoff, or
- violates any laws or regulations.

### **10.3.13.10 Records**

Each employee shall record the expenditure and the purpose of the expenditure associated with gifts and entertainment related to Government Officials (regardless of the amount involved) and such reports, at a minimum shall contain:

- the description of the gift or entertainment;
- the amount of the expense; and
- the names and titles of the individuals and the agencies/organizations with which they are affiliated.

### **10.3.13.11 Detection and Reporting**

Firm employees must report to the Chief Compliance Officer any activity that fails to comply with these procedures or applicable anticorruption laws.

Firm employees should be attentive to the existence of warning signs or "red flags" that suggest that improper payments to Government Officials are or may be taking place. These include:

- Transactions in high risk jurisdictions that may involve interaction with Government Officials.
- Third party has a reputation for bribery.
- Third party has refused to promise to abide by anticorruption laws or to warrant that it has not paid and will not pay bribes.
- Third party or intermediary has sought a commission that is excessive, paid in cash or is otherwise irregular.
- Third party or intermediary seeks payment to an offshore account outside country where such person does business.
- Third party or intermediary is owned in part by a Government Official or his or her family member or has other close ties to a government.
- Government Official suggests hiring a particular adviser to help obtain a government contract that is within the domain of such Government Official.
- Proposed third party or intermediary has requested that Coastal prepare false invoices or any other type of false documentation.
- Third party or intermediary is related to a Government Official who is in a position to grant a business advantage or is involved in a business in which such official owns an equity interest.
- Proposed agent, consultant or other intermediary insists that his or her identity not be disclosed to a Government Official.
- A refusal by an agent, consultant or intermediary to identify its owners, partners or principals.
- Perception that a donation to a specific charity at the request of a Government Official is a quid pro quo for governmental action.
- Diversion of cash payments to special account or "off the books" accounts.
- Lack of documentation for particular transactions, such as a failure to provide itemized receipts or invoices for services rendered.
- Expenses that cannot be explained.
- Poor financial controls over disbursements and poor bookkeeping.
- Hiring of third party or intermediary to perform tasks that require no special knowledge or skills and could have been performed directly by company employees.
- Travel expenses reimbursed for government customers or their family members for which there is not a legitimate business purpose.
- Relatives of Government Officials on the payroll.

### 10.3.14 Terminated Employees, Officers and Directors

Coastal shall maintain a list of all terminated employees, officers and directors that contains, at a minimum, the following information about each termination:

- Name and position of employee terminated;
- Date of termination; and
- Reason for termination.

### 10.3.15 Employee, Officer and Director Information

Coastal shall maintain a current organizational chart showing ownership percentages of Coastal and control persons. In addition, the following information should be maintained about each employee, office and director (collectively, the "employee") of Coastal :

- Names;
- Any threatened, pending and settled litigation involving the employee;
- Any disciplinary action taken by Coastal against the employee during the most recent calendar year; and
- Names of any joint ventures or any other businesses in which the employee participates or has any interest, including a description of each relationship.

### 10.3.16 Pay-to-Play Activities

[Investment Advisers Act of 1940 Rule 206(4)-5]

Investment advisers provide a wide variety of advisory services to state and local governments, including managing their public pension plans. The SEC has adopted Rule 206(4)-5 under the Advisers Act that prohibits an investment adviser from providing advisory services for compensation to a government client for two years after the adviser or certain of its executives or employees make a contribution to certain elected officials or candidates. The rule is targeted at those employees of an adviser whose contributions in the SEC's view raise the greatest danger of quid pro quo exchanges, and it covers only contributions to those governmental officials who would be the most likely targets of pay-to-play arrangements because of their authority to influence the award of advisory business. The rule also prohibits an adviser from providing or agreeing to provide, directly or indirectly, payment to any third party for a solicitation of advisory business from any government entity on behalf of such adviser. Additionally, the rule prevents an adviser from soliciting from others, coordinating contributions to certain elected officials or candidates, or coordinating payments to political parties where the adviser is providing or seeking government business. Finally, the rule amendments require an adviser to maintain certain records of the political contributions made by the adviser or certain of its executives or employees.

The provisions of the rule continue to be phased in as the SEC has recently extended certain compliance dates for the various provisions of the rule. Advisers may elect to comply with these procedures prior to the above compliance dates because the new rule imposes prohibitions that look back to specified periods of time. Thus, if the adviser currently engages in these activities or proposes to engage in such activities, it should consider implementing these procedures immediately.

Coastal and its employees may make political contributions or coordinate with others to make political contributions to Officials running for various governmental offices. From time to time, Coastal may have the opportunity to provide advisory services to a governmental entity such as a state pension plan. To gain governmental entity clients, Coastal may desire to pay third parties that will solicit such business on behalf of

Coastal . These procedures govern Coastal 's and its employees' political activities when Coastal is also seeking to manage, or actively managing, assets of governmental entities. Such procedures are sometimes called "pay-to-play" procedures.

### **10.3.16.1 Applicability of Pay-to-Play Rules**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Rule 206(4)-5 under the Advisers Act and these procedures only apply if:

- Coastal provides or is considering whether to provide investment advisory services to a Government entity; or
- Coastal provides or is considering whether to make available for investment Covered Investment Pools that Coastal advises to a Government entity.

### **10.3.16.2 Pay-to-Pay Rule Definitions**

[Investment Advisers Act of 1940 Rule 206(4)-5]

The following definitions apply to the pay-to-play procedures set forth in this section.

#### **10.3.16.2.1 Contributions**

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Contribution" means any gift, subscription, loan, advance, or deposit of money or anything of value made for:

- The purpose of influencing any election for federal, state or local office;
- Payment of debt incurred in connection with any such election; or
- Transition or inaugural expenses of the successful candidate for state or local office.

The SEC does not consider a donation of time by an individual to be a contribution, provided the adviser has not solicited the individual's efforts and the adviser's resources, such as office space and telephones, are not used. The SEC would not consider a charitable donation made by an investment adviser to an organization that qualifies for an exemption from federal taxation under the Internal Revenue Code, or its equivalent in a foreign jurisdiction, at the request of an official of a government entity to be a contribution for purposes of Rule 206(4)-5.

#### **10.3.16.2.2 Covered Associate**

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Covered Associate" means:

- Any general partner, managing member or executive officer, or other individual with a similar status or function, of Coastal ;
- Any employee of Coastal who solicits a government entity for Coastal and any person who supervises, directly or indirectly, such employee; and
- Any political action committee controlled by Coastal or by any person described in paragraphs (f)(2)(i) and (f)(2)(ii) of Rule 206(4)-5 under the Advisers Act.

#### **10.3.16.2.3 Covered Investment Pool**

[Investment Advisers Act of 1940 Rule 206(4)-5; Investment Company Act of 1940 Section 3(a)]

"Covered Investment Pool" means:

- An investment company registered under the Investment Company Act of 1940 that is an investment option of a plan or program of a government entity; or
- Any company that would be an investment company under Section 3(a) of the Investment Company Act of 1940, but for the exclusion provided from that definition by either Section 3(c)(1), Section 3(c)(7) or Section 3(c)(11) of that Act (e.g., most hedge funds).

#### **10.3.16.2.4 De Minimis Contribution**

[Investment Advisers Act of 1940 Rule 206(4)-5]

"De Minimis Contribution" means:

- \$350 in the case of a Contribution to an Official for whom such employee is entitled to vote; and
- \$150 in the case of a Contribution to an Official for whom such employee is not entitled to vote.

#### **10.3.16.2.5 Executive Officer**

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Executive Officer" means:

- The President of Coastal ;
- Any vice president in charge of a principal business unit, division or function (such as sales, administration or finance) of Coastal ;
- Any other officer of Coastal who performs a policy-making function; and
- Any other person who performs similar policy-making functions for Coastal .

#### **10.3.16.2.6 Government Entity**

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Government entity" means any state or political subdivision of a state, including:

- Any agency, authority, or instrumentality of the state or political subdivision;
- A pool of assets sponsored or established by the state or political subdivision or any agency, authority or instrumentality thereof, including, but not limited to a "defined benefit plan" as defined in section 414(j) of the Internal Revenue Code , or a state general fund;
- A plan or program of a government entity; and
- Officers, agents, or employees of the state or political subdivision or any agency, authority or instrumentality thereof, acting in their official capacity.

#### **10.3.16.2.7 Official**

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Official" means any person (including any election committee for the person) who was, at the time of the Contribution, an incumbent, candidate or successful candidate for elective office of a government entity, if the office:



- Is directly or indirectly responsible for, or can influence the outcome of, the hiring of an investment adviser such as Coastal by a government entity; or
- Has authority to appoint any person who is directly or indirectly responsible for, or can influence the outcome of, the hiring of an investment adviser such as Coastal by a government entity.

### 10.3.16.2.8 Payment

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Payment" means any gift, subscription, loan, advance, or deposit of money or anything of value.

### 10.3.16.2.9 Regulated Person

[Investment Advisers Act of 1940 Rule 206(4)-5; SEC Securities Exchange Act of 1934 Section 3(a)(4), Section 3(a)(5) and Section 15A]

"Regulated Person" means:

- An investment adviser registered with the SEC that has not, and whose Covered Associates have not, within two years of soliciting a government entity:
  - Made a Contribution to an official of that Government entity, other than as described in paragraph (b)(1) of Rule 206(4)-5 under the Advisers Act; and
  - Coordinated or solicited any person or political action committee to make any Contribution or payment described in paragraphs (a)(2)(ii)(A) and (B) of Rule 206(4)-5; or
- A "broker," as defined in Section 3(a)(4) of the Securities Exchange Act of 1934 or a "dealer," as defined in Section 3(a)(5) of that Act, that is registered with the SEC, and is a member of a national securities association registered under Section 15A of that Act, provided that:
  - The rules of the association prohibit members from engaging in distribution or solicitation activities if certain political contributions have been made; and
  - The SEC, by order, finds that such rules impose substantially equivalent or more stringent restrictions on broker-dealers than this section imposes on investment advisers and that such rules are consistent with the objectives of Rule 206(4)-5.

### 10.3.16.2.10 Solicit

[Investment Advisers Act of 1940 Rule 206(4)-5]

"Solicit" means:

- With respect to investment advisory services, to communicate, directly or indirectly, for the purpose of obtaining or retaining a client for, or referring a client to, Coastal ; and
- With respect to a contribution or payment, to communicate, directly or indirectly, for the purpose of obtaining or arranging a contribution or payment.

The SEC has stated that the determination of whether a particular communication is a solicitation depends on the specific facts and circumstances relating to such communication. As a general proposition any communication made under circumstances reasonably calculated to obtain or retain an advisory client would be considered a solicitation unless the circumstances otherwise indicate that the communication does not have the purpose of obtaining or retaining an advisory client. For example, if a government official asks an employee of an advisory firm whether the adviser has pension fund advisory capabilities, such employee generally would not be viewed as having solicited advisory business if he or she provides a limited affirmative response, together with either providing the government official with contact information for a covered associate of the adviser or informing the government official that advisory personnel who handle government advisory business will contact him or her.

### 10.3.16.3 Pay-to-Play Contributions

[Investment Advisers Act of 1940 Rule 206(4)-5]

The following governs Coastal 's activities as they related to political contributions, campaign activities, involvement with political action committees and new employees.

#### 10.3.16.3.1 Advisory Services to Government Entities Prior to and After Political Contributions

[Investment Advisers Act of 1940 Rule 206(4)-5]

- Look-Back: Coastal may not make any proposed Contribution and a Covered Association may not make a proposed Contribution other than a De Minimis Contribution made by an employee of Coastal to an Official of a Government entity if Coastal has provided advisory services for compensation to such Government entity within the last 2 years of the date of the proposed Contribution ("2-Year Cooling-Off Period").
- Look-Forward: After Coastal has made a Contribution or a Covered Associate has made a Contribution other than a De Minimis Contribution made by an employee of Coastal to an Official of a Government entity, Coastal will not provide advisory services for compensation to such Government entity for a period of 2 years from the date of such Contribution ("2-Year Cooling-Off Period").

The SEC has stated that the two-year time out is intended to discourage advisers from participating in pay-to-play practices through a 2-year "cooling-off period" during which the effects of a political contribution on the selection process can be expected to dissipate. With respect to de minimis contributions, the SEC believes that the relatively small amount of the contribution suggests that it is unlikely to be made for the purpose of influencing the award of an advisory contract.

The De Minimis Contribution exemption is available to employees only, but not Coastal .

The De Minimis Contribution pertains to each employee and is not aggregated for all employees for purposes of the dollar amount thresholds.

#### 10.3.16.3.2 Pre-Clearance of Contributions

[Investment Advisers Act of 1940 Rule 206(4)-5]

Even if a Contribution will not be prohibited by the 2-Year Cooling-Off Period set forth herein or is a De Minimis Contribution, no Covered Associate may make a Contribution to any Official unless:

1. The Covered Associate submits to the Chief Compliance Officer a written request to make the proposed Contribution;
2. The Chief Compliance Officer reviews the written request to verify that the proposed Contribution is a (i) De Minimis Contribution or a Contribution that is not subject to the 2-Year Cooling Off Period; and (ii) does not otherwise violate these procedures, including specified prohibited Contributions;
3. The Covered Associate has received written pre-clearance from the Chief Compliance Officer that informs the Covered Associate that he or she may make the proposed Contribution; and
4. The Covered Associate represents that he or she shall promptly submit a copy of the returned check or other documentation evidencing the Contribution.

#### 10.3.16.3.3 Prohibited Contributions

[Investment Advisers Act of 1940 Rule 206(4)-5]

The Chief Compliance Officer may not preclear, and no Covered Associate may make, a Contribution:

- to an Official of a Government entity, including a candidate for such office who is or will be in a position to influence the award of advisory business and Coastal has received compensation from such Government entity within the two years prior to the proposed date of the Contribution for providing it advisory services (as set forth herein);
- the purpose of which is to influence the awarding of an advisory contract or the decision to invest in a Covered Investment Pool managed by Coastal and is likely to have the effect of influencing the award of an advisory contract or the decision to invest in a Covered Investment Pool by Coastal ; or
- which would result in serious adverse consequences to Coastal .

#### **10.3.16.3.4 Returned Contributions**

[Investment Advisers Act of 1940 Rule 206(4)-5]

If a Covered Associate has made a Contribution in violation of these procedures, the Chief Compliance Officer will:

- Determine the date the Contribution was made; and
- Require the Covered Associate to take all available steps to have the Official, political action committee or political party return the Contribution to the Covered Associate if the Contribution was made (i) 60 days after Coastal discovered the Contribution and (ii) 4 months after the Contribution was made.

The "Returned Contributions" exception is available:

- No more than 3 times during any 12-month period for Coastal ; and
- No more than once per Covered Associate.

#### **10.3.16.3.5 Coordinating and Soliciting Contributions**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Neither Coastal nor its Covered Associates may coordinate or Solicit Contributions to:

- an Official of a Government entity to which Coastal is seeking to provide investment advisory services; or
- a political party of a state or locality where Coastal is providing or seeking to provide investment advisory services to a Government entity.

No Covered Associate or Coastal without the written consent of the Chief Compliance Officer may coordinate or solicit any person or political action committee to make a:

- Contribution to an Official; or
- payment to a political party of a state or locality.

With regard to solicitations from a political action committee or a political party with no indication of how the collected funds will be disbursed, the SEC stated that investment advisers should inquire how any funds received from the adviser or its covered associates would be used. For example, if the political action committee or political party is soliciting funds for the purpose of supporting a limited number of government officials, then, depending upon the facts and circumstances, contributions to the political action committee or payments to the political party might well result in the same prohibition on compensation.

#### **10.3.16.3.6 Campaign Activities**

[Investment Advisers Act of 1940 Rule 206(4)-5]

No Covered Associate or Coastal without the written consent of the Chief Compliance Officer may:

- use the name of the firm in any fund-raising literature for an Official; or
- sponsor a meeting or conference that features an Official as an attendee or guest speaker and that involves fund-raising for such person.

#### **10.3.16.3.7 Political Action Committees**

[Investment Advisers Act of 1940 Rule 206(4)-5]

No Covered Associate or Coastal without the written consent of the Chief Compliance Officer may make a Contribution to a political action committee or state or local political party. When deciding whether to approve a Contribution, the Chief Compliance Officer will take into account the following factors:

- how the Contribution will be used; and
- whether the political action committee or political party is closely associated with an official of a Government entity.

According to the SEC, these restrictions in Rule 206(4)-5 are intended to prevent advisers from circumventing the rule's prohibition on direct contributions to certain elected officials such as by "bundling" a large number of small employee contributions to influence an election, or making contributions (or payments) indirectly through a state or local political party.

#### **10.3.16.3.8 New Employees**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Prior to a person becoming a new employee of Coastal, Coastal shall require the employee candidate to disclose all Contributions and payments made by such persons to Officials, political action committees and state and local political parties within the preceding 2 years (if the employee candidate will solicit clients) and 6 months (if the employee candidate will not solicit clients).

When an employee becomes a Covered Associate, the SEC stated that the adviser must "look back" in time to that employee's Contributions to determine whether the time out applies to the adviser. If, for example, the Contribution was made more than two years (or for non-solicitors, six months) prior to the employee becoming a Covered Associate, the time out has run; if the Contribution was made less than two years (or six months) from the time the person becomes a covered associate, Rule 206(4)-5 prohibits the adviser that hires or promotes the contributing covered associate from receiving compensation for providing advisory services from the hiring or promotion date until the two-year period has run. The look-back provision is designed to prevent advisers from circumventing the rule by influencing the selection process by hiring persons who have made political contributions.

#### **10.3.16.3.9 Pay-to-Play Monitoring**

Periodically, the Chief Compliance Officer shall monitor political contributions of employees of Coastal who are "covered associates" by, among other things, searching the following Internet data bases for contributions and matching those contributions to those reported by the employee:

- <http://www.opensecrets.org>
- <http://www.fec.gov/finance/disclosure/norindsea.shtml>
- relevant state political contribution data bases

#### **10.3.16.4 Pay-to-Play Solicitation Arrangements**

[Investment Advisers Act of 1940 Rule 206(4)-5]

The SEC recently extended the compliance deadline for the pay to play rule's ban on third-party solicitation from June 13, 2012 to nine months after the compliance date of a final rule adopted by the SEC by which municipal adviser firms must register under the Securities Exchange Act of 1934 (see Investment Advisers Act Release No. 3418).

The following procedures govern Coastal 's pay-to-play solicitation arrangements.

##### **10.3.16.4.1 Non-Regulated Persons**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Coastal may not provide or agree to provide, directly or indirectly, payment to any person for solicitation of Government entity advisory business on behalf of Coastal unless that person is a Regulated Person.

An investment adviser is prohibited from providing or agreeing to provide, directly or indirectly, payment to any person for solicitation of government advisory business on behalf of such adviser unless that person is registered with the SEC (e.g., a registered broker-dealer or investment adviser) and subject to pay-to-play restrictions either under the SEC's rule or the rules of a registered national securities association (e.g., FINRA).

##### **10.3.16.4.2 Solicitation Arrangement Review**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Prior to Coastal or any Covered Associate entering into a solicitation agreement or arrangement related to Government entity advisory business with a third-party, the following steps shall be taken:

1. Coastal shall draft a document describing the arrangement, including which Covered Associates and third-parties will participate in the arrangement, and the agreement that will govern such arrangement;
2. The written description, agreement, information about the third-party and any other relevant documents shall be submitted to the Chief Compliance Officer and the relevant Covered Associates shall request his or her approval;
3. The Chief Compliance Officer shall check the background of the third-party and participating personnel, including whether they have any criminal history or committed other violations;
4. The Chief Compliance Officer shall request from the third-party, as a condition to Coastal engaging such third-party, a written representation regarding whether it is a Regulated Person;
5. The Chief Compliance Office shall conduct his or her own review to make sure that the third-party has not made political contributions or otherwise engaged in conduct that would disqualify it from the definition of Regulated Person; and
6. The Chief Compliance Officer shall approve the third-party solicitation agreement and/or arrangement if it complies with the procedures set forth herein.

##### **10.3.16.4.3 Ongoing Regulated Person Status**

[Investment Advisers Act of 1940 Rule 206(4)-5]

After Coastal has entered into a solicitation agreement and arrangement with a third-party solicitor, the Chief Compliance Officer shall periodically confirm the status of such solicitor as a Regulated Person by:

- Obtaining a representation from the third-party solicitor as to its Regulated Person status; or
- Obtaining other evidence supporting the conclusion that the third-party solicitor is a Regulated Person.

### **10.3.16.5 Pay-to-Play Sub-Adviser Arrangements**

[Investment Advisers Act of 1940 Rule 206(4)-5]

The following procedures govern Coastal 's pay-to-play solicitation arrangements involving third-parties where Coastal either hires a sub-adviser or acts as a sub-adviser.

#### **10.3.16.5.1 Firm Acts as Sub-Adviser to Manage Government Entity Assets**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Prior to Coastal entering into an agreement or arrangement with a third-party adviser where Coastal will serve as a sub-adviser to an account or Covered Investment Pool consisting of Government entity assets managed by the third-party adviser, the Chief Compliance Officer shall:

- Disclose in writing to the third-party adviser whether Coastal or any of its Covered Associates have made a contribution or payment that would result in a serious adverse consequence to the third-party adviser under Rule 206(4)-5; and
- Verify on an ongoing basis that neither Coastal nor any of its Covered Associates has made a Contribution or payment that would result in a serious adverse consequence to the third-party adviser under Rule 206(4)-5 .

#### **10.3.16.5.2 Firm Hires Sub-Adviser to Manage Government Entity Assets**

[Investment Advisers Act of 1940 Rule 206(4)-5]

Prior to Coastal entering into an agreement or arrangement with a third-party that will serve as a sub-adviser to an account or Covered Investment Pool consisting of Government entity assets managed by Coastal , the Chief Compliance Officer shall require the third-party sub-adviser to:

- Disclose in writing to Coastal whether the third-party sub-adviser or any of its Covered Associates have made a Contribution or payment that would result in a serious adverse consequence to Coastal under Rule 206(4)-5; and
- Verify on an ongoing basis that neither the third-party sub-adviser nor any of its Covered Associates has made a Contribution or payment that would result in a serious adverse consequence to Coastal under Rule 206(4)-5.

### **10.3.16.6 Pay-to-Play SEC Guidance**

[Investment Advisers Act of 1940 Rule 206(4)-5]

When a compliance officer of Coastal has questions regarding particular aspects about the SEC's pay-to-play rules, he or she will refer to the Staff Responses to Questions About Pay to Play Rules. Compliance personnel will also monitor updates made by the SEC to the Staff Responses to Questions About Pay to Play Rules. The SEC guidance is found on the SEC's web site at: <http://www.sec.gov/divisions/investment/pay-to-play-faq.htm>.

### **10.3.17 Social Media Procedures**

Coastal recognizes the importance of the social media in shaping public thinking about Coastal and Coastal 's current and potential advisory services, employees, partners and clients. Coastal also recognizes the importance of its employees joining in and helping shape industry conversation and direction through blogging and interaction in social media. So, Coastal is committed to supporting employees' rights to interact knowledgeably and socially in the blogosphere and on the Internet through blogging and interaction in social media.

These procedures are designed to help employees make appropriate decisions about work-related blogging and the contents of blogs, personal Web sites, postings on wikis and other interactive sites, postings on video or picture sharing sites, or in the comments that you make online on blogs, elsewhere on the public Internet, and in responding to comments from posters either publicly or via email. These procedures also protect the privacy, confidentiality and interests of Coastal and its current and potential advisory services, employees, partners, clients and competitors.

Note that these policies and guidelines apply only to work-related communications and sites and issues and are not meant to infringe upon an employee's personal interaction or commentary online that do not involve Coastal or firm business.

#### **10.3.17.1 Social Media**

"Social media" includes:

- Facebook
- Twitter
- LinkedIn
- Blogs and micro-blogs
- YouTube
- Flickr
- MySpace
- Digg
- Reddit
- RSS
- Participation in interactive electronic forums such as chat rooms or online seminars
- Similar electronic communications

#### **10.3.17.2 Guidelines for Interaction about the Firm through Social Media**

Without the express written permission of the Chief Compliance Officer, an employee of Coastal may not:

- Develop a Web site or write a blog that will mention Coastal and/or current and potential advisory services, employees, partners, clients and competitors of Coastal .
- Speak on behalf of Coastal in a social media communication.
- Sell any product or service that would compete with any of Coastal 's products or services.
- Use company logos and trademarks in a social media communication.
- Discuss competitors, clients and vendors in a social media communication.

The Chief Compliance Officer may grant permission only if:

- The use of the social media is for business purposes only;

- Participants in the social media activity will be appropriately supervised by the Chief Compliance Officer or other senior employee of Coastal ; and
- Participants in the social media will have received the necessary training on these social media procedures and have the necessary background to engage in such activities.

### **10.3.17.3 Investment Recommendation**

No employee may make an investment recommendation or recommend a specific investment product to a client or anyone else through a social media communication or link to such a recommendation unless a senior investment officer (e.g., the Chief Investment Officer) has previously approved the content of social media communication.

Communications through social media that include specific investment recommendations or recommend specific investment products present greater challenges for a firm's compliance program than other types of communications, including whether such communications are suitable for the client and how such communications are maintained for in a manner that complies with applicable recordkeeping rules.

### **10.3.17.4 Advertising and Marketing**

Coastal will treat all "static" social media communications as advertisements subject to the marketing procedures of this Compliance Manual.

Static content are postings like a profile, background or wall information. Static content is generally accessible to all visitors and usually remains posted until it is removed. This content is pre-conceived and there is an opportunity for it to be reviewed prior to its use in social media.

Non-static content are real-time, interactive communications, such as interactive posts, tweets, status updates and comments. Since non-static content are spontaneous, there is no time for someone to review in advance the content in these communications.

### **10.3.17.5 Third-Party Posts**

Third-party social media posts generally are not attributable to Coastal . Coastal will deem a third-party social media static communication as an advertisement by Coastal subject to the marketing procedures of this Compliance Manual if Coastal :

- involved itself in the preparation of the content of the third-party static social media communication; or
- explicitly or implicitly endorses or approves the third-party static social media communication.

### **10.3.17.6 Testimonials**

Coastal periodically reviews social media sites including Facebook, LinkedIn and LinkedFA to determine whether there is a recommendation or other positive statement or indication (e.g., thumbs up). Upon finding such a statement or indication, Coastal will determine whether it might be viewed as a testimonial and, if so, Coastal will:

- request the sponsor or owner of the social media site to remove the favorable communication; and
- if the communication cannot be removed, Coastal will remove itself from the site.



### **10.3.17.7 Complaints**

Coastal will treat any complaints posted by a client of Coastal on a social media site as a complaint subject to procedures in this Compliance Manual governing such complaints.

### **10.3.17.8 Confidential Information Component of the Social Media Policy**

Employees may not share information that is confidential and proprietary about Coastal through a social media communication. This includes, but is not limited to, information about advisory services, financial information, number of clients, number of employees, firm strategy and any other information that has not been publicly released by Coastal .

These are given as examples only and do not cover the range of what Coastal considers confidential and proprietary. If an employee has any question about whether information has been released publicly or doubts of any kind, speak with the Chief Compliance Officer before releasing information that could potentially harm Coastal , or Coastal 's current and potential advisory services, employees, partners, and clients.

### **10.3.17.9 Respect and Privacy Rights Components of the Blogging Policy**

If an employee has written permission to communicate about Coastal in a social media communication, he or she shall:

- Speak respectfully about Coastal and its employees, clients, partners and competitors. Such employee may not engage in name calling or behavior that will reflect negatively on Coastal 's reputation. Note that the use of copyrighted materials, unfounded or derogatory statements, or misrepresentation is not viewed favorably by Coastal and can result in disciplinary action up to and including employment termination.
- Write or otherwise communicate knowledgeably, accurately, and using appropriate professionalism. Despite disclaimers, Web interaction can result in members of the public forming opinions about Coastal and its employees, partners, clients and advisory services.
- Honor the privacy rights of Coastal 's current employees by seeking their permission before writing about or displaying internal firm happenings that might be considered to be a breach of their privacy and confidentiality.

### **10.3.17.10 Legal Liability Component of the Blogging Policy**

An employee is legally liable for anything he or she writes or presents online or through a social media communication. Employees can be disciplined by Coastal for commentary, content or images that are defamatory, pornographic, proprietary, harassing, libelous, or that can create a hostile work environment. Employees can also be sued by firm employees, competitors, and any individual or company that views their commentary, content, or images as defamatory, pornographic, proprietary, harassing, libelous or creating a hostile work environment.

### **10.3.17.11 Records**

All documents concerning static social media communications shall be maintained in Coastal 's books and records.

Firms that remove static social media content, whether by deleting comments on a blog or taking down a Facebook post, may run afoul of recordkeeping requirements if a copy of the deleted communication is not archived. Removal of content without saving a screenshot could constitute destruction of records under the Advisers Act.

#### **10.3.17.12 Mobile Device Access and Use Policy**

- Any employee of Coastal may use a mobile device for business use, however, Coastal does not provide mobile devices to employees.
- Mobile device users must take reasonable care of mobile devices in their possession and ensure that they remain secure at all times. Any loss, damage or theft is to be reported to the Chief Compliance Officer as soon as practicable.
- To ensure security, the Advisor/Employee will use encryption and passwords, and periodically change passwords.
- Failure to abide by these procedures may amount to misconduct or, depending on the circumstances, serious misconduct; non-compliance could result in action being taken against the employee. Coastal reserves the right to remove or restrict the mobile device service from any employee.

#### **10.3.18 Annual Personnel Review**

The Chief Compliance Officer shall request and require each employee to certify in writing on an annual basis that he or she has:

1. complied with the Compliance Manual and its procedures;
2. read and understands the Compliance Manual and its procedures;
3. received a copy of Coastal's Code of Ethics;\*
4. read and understands the Code of Ethics;\*
5. disclosed, precleared (if applicable) and reported all transactions in Securities consistent with the requirements of the Code of Ethics;\*
6. complied with Coastal's guidelines on interaction through social media;
7. pre-cleared and reported all political contributions;
8. complied with all insider trading procedures;
9. complied with Coastal's e-mail policy and procedures;
10. reported all outside business activities; and
11. complied with all of Coastal's gift and entertainment procedures, including those applicable to foreign government officials.

\* Applicable only to access persons.

### **10.4 Form ADV Disclosure**

The Chief Compliance Officer will cause Coastal to briefly describe in its Brochure (Part 2A) the employee trading policies and procedures. This disclosure should describe the conflict of interests between Coastal and its clients with respect to investment opportunities and how Coastal addresses these conflicts.

If Coastal engages in pay-to-play activities, it will disclose the nature of activities in its Brochure (Part 2A), including the fact that Coastal contributes money to political officials or candidates of government entities while Coastal is managing the assets, or seeking to manage the assets, of such government entities.

## 10.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(13), 204A-1, 204A-1(a)(5), 204A-1(b) and 204A-1(c)]

The following employee-related records shall be maintained by Coastal:

### 10.5.1 Code of Ethics Records

Coastal will maintain in its Employees Procedures books and records the following records related to each Access Person's personal securities trades:

- A copy of Coastal's code of ethics adopted and implemented pursuant to Rule 204A-1 that is in effect or at any time within the past five years was in effect;
- A record of any violation of the code of ethics and of any action taken as a result of the violation;
- A record of all written acknowledgments as required by Rule 204A-1(a)(5) for each person who is currently, or within the past five years was, a supervised person of Coastal;
- A record of each report made by an access person as required by Rule 204A-1(b), including any information provided under paragraph (b)(3)(iii) of that rule in lieu of such reports;
- A record of the names of persons who are currently, or within the past five years were, access persons of the investment adviser; and
- A record of any decision, and the reasons supporting the decision, to approve the acquisition of securities by access persons under Rule 204A-1(c) for at least five years after the end of the fiscal year in which the approval is granted.

Coastal should note that it shall not be deemed to have violated the provisions of this section or paragraph (a)(13) of Rule 204-2 under the Investment Advisers Act of 1940 because of its failure to record securities transactions of any advisory representative if it establishes that it instituted adequate procedures and used reasonable diligence to obtain promptly reports of all transactions required to be recorded.

### 10.5.2 Employee Records

Coastal maintains each of the additional following records related to employees:

- names, titles and business and residence address;
- records related to Coastal's efforts pursuant to these procedures to prevent insider trading by its employees;
- a list of all unregistered employees, a description of their responsibilities, and a description of the investment-related activities that they may engage in;
- records of any material issues that arise with respect to the activities of Adviser Representatives;
- documents supporting an Adviser Representative's right to use particular designations; and
- copies of all forms and other information submitted by employees who engage in outside activities and documents that evidence the Chief Compliance Officer's periodic review of such employees' outside activities.

### 10.5.3 Pay-to-Play Records

If Coastal engages in pay-to-play activities, it will maintain the following books and records:

- a record of all Government entities to which it provides or has provided advisory services (or which are or were investors in any covered investment pool to which Coastal provides or has provided advisory services) for the past five years, but not prior to September 13, 2010. This does not necessarily mean that Coastal's records must extend back to September 13, 2010. The SEC has stated that an adviser must begin to create and maintain a list of current government clients (if it has any) on March 14, 2011, except clients that are registered investment companies with respect to which it must begin to create and maintain such list on September 13, 2011. See Staff Responses to Questions About the Pay to Play Rule, <http://www.sec.gov/divisions/investment/pay-to-play-faq.htm>, Question I.2.

Records relating to the Contributions and payments referred to above will be listed in chronological order and indicate:

- The name and title of each contributor;
- The name and title (including any city/county/state or other political subdivision) of each recipient of a Contribution or payment;
- The amount and date of each Contribution or payment; and
- Whether any Contributions were the subject of the exception provided herein for certain returned Contributions.

If Coastal enters into agreements or arrangements with third-party solicitors, Coastal shall maintain:

- Records documenting the Regulated Person status of the third-party solicitor;
- List of the name and business address of each third-party solicitor; and
- Agreements and other documents related to the third-party solicitation arrangement.

The SEC's Division of Investment Management has stated that it would not recommend enforcement action to the Commission if an adviser does not comply with this requirement (Rule 204-2(a)(18)(i)(D) under the Advisers Act) until it is required to comply with the rule's third-party solicitation provisions. The SEC recently extended the compliance deadline for the pay to play rule's ban on third-party solicitation from June 13, 2012 to nine months after the compliance date of a final rule adopted by the Commission by which municipal adviser firms must register under the Securities Exchange Act of 1934 (see Investment Advisers Act Release No. 3418).

# 11 REGISTRATION AND FILINGS

## Introduction

[Investment Advisers Act of 1940 Form ADV; SEC Securities Exchange Act of 1934 Section 13 and Section 16]

A person or company engaged in the business of providing investment advice to others generally must register as an investment adviser. Businesses engaging in such activities must determine whether they meet the definition of investment adviser (and thus must register with the SEC or state) or whether an exemption from registration is available.

Advisers with \$110 million or more client assets under management generally must register with the SEC. Advisers that manage between \$90 million and \$110 million of client assets will be registered with the SEC or a state depending on their registration status at a particular time. Advisers with less than \$90 million of client assets under management generally may avoid SEC registration if their home state requires adviser registration and subjects advisers to inspection. Certain advisers that manage only hedge funds may be able to register with the SEC as exempt reporting advisers.

Employees of SEC- and state-registered advisers that provide investment advice to clients must register as an investment adviser representative with one or more state(s).

Once registered, the investment adviser must make periodic amendments to its registration statement (Form ADV) and its employees' registration statements (Form U-4s).

Maintenance of an accurate, current and truthful registration statement is one of the most important compliance functions of an investment adviser. Erroneous or misleading statements of information in a registration statement often lead to regulatory enforcement actions. Since the violation of the law in many cases is black-and-white, the SEC or a state regulator typically has an easy job of proving its case.

On May 20, 2015, the SEC proposed rules, forms and amendments that, if adopted, would modernize and enhance the reporting and disclosure of information by investment advisers. Among other things, the proposed amendments would require investment advisers to provide additional information for the SEC and clients to better understand the risk profile of individual advisers and the industry. In addition, the proposed amendments to Rule 204-2 under the Advisers Act would require advisers to maintain records of performance calculations and communications related to performance.

In addition to filings related to Form ADV, an investment adviser may have to make a number of additional filings under the securities laws. These filings are described in the following chart:

Reporting Requirement	Form/Schedule	Description
Section 13(d)	Schedule 13D	Requires a beneficial owner of more than 5% of a class of publicly traded equity securities to file a Schedule 13D with the SEC, the issuer of such securities, and the national exchanges on which those securities trade. The report must be filed within 10 days of crossing the 5% threshold. The filer must report why it acquired the shares and the source of funds used to acquire the shares.
Section 13(g)	Schedule 13G	Permits a beneficial owner of more than 5% of a class of publicly

		traded equity securities to file a short-form Schedule 13G in lieu of a Schedule 13D, provided the beneficial owner is passive (i.e., not trying to take control of the issuer).
Section 13(f)	Schedule 13F	Requires an institutional investment manager (including investment advisers) with over \$100 million of assets under management of certain equity securities to file a quarterly report on Schedule 13F with the SEC disclosing information about these assets under management.
Section 16(a)	Form 3, Form 4, Form 5	Requires a greater than 10% shareholder of a publicly traded company and certain officers of that company to file Form 3s, 4s and 5s with the SEC disclosing certain information. In addition, such persons are subject to short-swing profit rules.

## 11.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Form ADV; Investment Advisers Act of 1940 Rule 204-1; Investment Advisers Act of 1940 Section 202(a)(11); SEC Securities Exchange Act of 1934 Section 13 and Section 16]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer</li> </ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"> <li>• Operations</li> <li>• Legal</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Each year when Coastal updates its Form ADV</li> <li>• Each time there is a material change in Coastal's advisory business necessitating revision to its Form ADV</li> <li>• Each time there is a regulatory filing deadline</li> </ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"> <li>• Form ADV under the Investment Advisers Act of 1940</li> <li>• Section 202(a)(11) of the Investment Advisers Act of 1940</li> <li>• Rule 204-1 under the Investment Advisers Act of 1940</li> <li>• Sections 13 and 16 under the Securities Exchange Act of 1934</li> </ul>
<b>Records</b>	<ul style="list-style-type: none"> <li>• Copies of filed Form ADV, notice and U-4 filings and amendments</li> <li>• Copies of filed Schedule 13Ds, 13Fs, and 13Gs, and Forms 3, 4 and 5</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>• Coastal audits its Advisory Contract Procedures annually.</li> </ul>

## 11.2 Policy

It is Coastal's policy to make sure that its registration statement and its investment adviser representatives' registration statements are accurate, current and truthful, and to make timely filings of amendments to those documents and other regulatory documents.

## **11.3 Procedures**

### **11.3.1 Investment Adviser Status**

Coastal will register, and continue to be registered, as an investment adviser only if it meets the definition of "investment adviser" and is unable to rely upon any exemption to the definition of "investment adviser." Coastal meets the definition of "investment adviser" if it, for compensation, is engaged in the business of providing advice, making recommendations, issuing reports, or furnishing analyses on securities, either directly or through publications.

#### **11.3.1.1 General Exemptions/Exclusions**

Coastal is excluded from the definition of investment adviser (and thus not required to register as such with the SEC) if it is a:

- bank;
- lawyer, accountant, engineer or teacher (if the performance of advisory services is solely incidental to the profession);
- publisher of a bona fide newspaper, magazine or other business or financial publication of general and regular circulation;
- company exclusively providing advice about government securities;
- national rating statistical organization (NRSRO);
- family office;
- adviser, all of which clients are located in the state where the principal officer of the adviser is located;
- adviser registered with the CFTC provided it is not principally engaged in the investment advisory business;
- adviser solely to private funds with less than \$150 million in assets under management in the United States;
- certain foreign adviser without a place of business in the United States; or
- adviser to venture capital funds.

Coastal is exempt from registration with the SEC if it is a:

- pension consultant;
- adviser under the common control of an adviser registered with the SEC;
- multi-state adviser; or
- internet adviser.

#### **11.3.1.2 Broker-Dealer Exemption**

[Investment Advisers Act of 1940 Section 202(a)(11), 202(a)(11)-1 and 202(a)(11)(C)]

If Coastal is registered with the SEC as a broker or dealer, Coastal does not have to register with the SEC as an investment adviser if: (1) the performance of its advisory services is solely incidental to the conduct of its

business as a broker-dealer and (2) it does not earn any "special compensation" for its advisory services. See Section 202(a)(11)(C) of the Advisers Act.

Section 202(a)(11) of the Advisers Act sets forth the definition of an "investment adviser" and provides, among other things, that a broker-dealer will not be deemed to be an "investment adviser" if the broker-dealer's advisory services are "solely incidental" to its broker-dealer business and it receives no "special compensation" for such services. In 2005, the SEC adopted the original Rule 202(a)(11)-1 under the Advisers Act, the principal purpose of which was to deem broker-dealers offering "fee-based brokerage accounts" as not subject to the Advisers Act. The rule also included several interpretations of Section 202(a)(11)(C). On March 30, 2007, the Court of Appeals for the District of Columbia Circuit in *Financial Planning Association v. SEC* (the "FPA decision"), vacated the original Rule 202(a)(11)-1 on the grounds that the SEC did not have the authority to except broker-dealers offering fee-based brokerage accounts from the definition of "investment adviser."

#### **11.3.1.2.1 Broker-Dealer Financial Planning Services**

If Coastal is registered as a broker-dealer and offers financial planning services, it will have to register as an investment adviser if Coastal provides investment advice in connection with the financial plans and does one of the following:

- Portrays itself in advertisements or otherwise holds itself out as a financial planner;
- Has investment discretion over the client's account;
- Delivers a financial plan to its customer; or
- Represents to its customer that the advice is provided as part of a financial plan in connection with financial planning services.

The SEC currently is reconsidering its interpretive positions regarding when a broker-dealer that provides financial planning services must register with the SEC as an investment adviser. In 2007, the SEC commissioned the RAND Corporation to conduct a study on financial planning services provided by broker-dealers and investment advisers and how such services should be regulated. The Dodd-Frank Act, which became law on July 21, 2010, requires the SEC to study whether a fiduciary standard of care should be imposed on broker-dealers and, if so, to adopt rules imposing such standard of care.

If Coastal is registered as a broker-dealer and offers financial planning services, it will not have to register as an investment adviser if Coastal merely makes it known that financial planning or other investment advisory services are available.

For purposes of these procedures, a financial plan generally is a plan that seeks to address a wide spectrum of a client's long-term financial needs, and can include recommendations about insurance, savings, tax and estate planning, and investments. Use of financial tools to provide a client with guidance with respect to a particular transaction or an allocation of client funds and securities upon the long-term needs of the client is not deemed to be a financial plan.

#### **11.3.1.2.2 Special Accounts**

A broker-dealer will not be deemed to have "investment discretion" for purposes of this exemption if it has trading authority for accounts of persons with whom the registered representative has family or personal relationships in connection with the following types of accounts:

- Accounts of a family member (e.g., spouse) for which the associated person has trading authority;



- Custodial (UTMA/UGMA) accounts for minor children of the associated person or of family members, where the associated person acts as custodian;
- Trust accounts for family members or family friends where the associated person acts as trustee;
- Accounts for which the associated person is executor or executrix under the will of a family member or family friend; and
- Accounts for family members or family friends for whom the associated person is a guardian.

#### **11.3.1.2.3 Solely Incidental**

Based on interpretive guidance issued by the SEC in 2007, Coastal shall be deemed to be providing advisory services that is not solely incidental to its broker-dealer business and must register with the SEC as an investment adviser if Coastal:

- Enters into a separate contract with the client or charges a separate fee for investment advisory services. If Coastal charges such a separate fee, it should treat the advice as subject to the Advisers Act; or
- Exercises investment discretion. By having investment discretion, Coastal will not be deemed to be acting solely incidental to its brokerage business. Fully discretionary accounts should be treated as advisory accounts of Coastal.

#### **11.3.1.2.4 Special Compensation**

Coastal shall not be deemed to be earning "special compensation" if it charges different fees for different types of brokerage services. For example, Coastal will not be deemed to be earning special compensation and thus subjecting it to the registration requirements of the Advisers Act if it: (1) charges a higher fee for full-service brokerage services; and (2) a lower fee for online or discount brokerage services.

#### **11.3.1.2.5 Brokerage and Advisory Services**

If Coastal is registered as an investment adviser under the Advisers Act and a broker-dealer under the Exchange Act, it need only comply with the Advisers Act with respect to Coastal's advisory accounts and the Exchange Act with respect to its brokerage accounts.

#### **11.3.1.3 De-registration**

Before concluding that Coastal does not meet the definition of "investment adviser" or can rely upon any of the above exemptions to not register or de-register as an investment adviser, the Chief Compliance Officer shall consult with inside or outside legal counsel who has expertise on adviser registration.

If Coastal no longer meets the definition of investment adviser or is able to rely on an exemption from registration as such, Coastal will take steps, including filing a Form ADV-W, to de-register as such.

#### **11.3.1.4 Broker Status**

Unless Coastal is registered with the SEC as a broker, Coastal, to avoid meeting the definition of "broker," shall not engage in the following activities:

- Receive compensation (e.g., commission) for executing of securities trades;

- Hold itself out as a broker or provide brokerage services;
- Effect securities trades;
- Solicit customers for brokerage services; and
- Participate in the order-taking or order routing process (for example, by taking transaction orders from customers).

Whether Coastal or any of its employees would meet the definition of "broker" would depend upon the accumulation of these factors; i.e., no one factor will be dispositive.

### 11.3.1.5 Family Office Exemption

If Coastal meets the conditions of the family office exemption under Rule 202(a)(11)(G)-1 under the Advisers Act, it will be excluded from the definition of an "investment adviser" under the Advisers Act and thus will not be subject to regulation or registration under the Advisers Act. The three conditions generally are:

- the exclusion is limited to family offices that provide advice about securities only to certain "family clients;"
- Coastal requires that family clients wholly own the family office and family members and/or family entities control the family office;
- Coastal may not hold itself out to the public as an investment adviser.

Coastal if it relies upon the family office exemption shall monitor its exempt status, including meeting the conditions of Rule 202(a)(11)(G)-1 that rely upon various definitions set forth in Rule 202(a)(11)(G)-1.

### 11.3.1.6 Relying Advisers and SPVs

Coastal may have a number of employees, related entities or other related persons providing investment advisory services to clients. The following, despite their investment advisory activities will not have to separately register with the SEC as an investment adviser.

- **Natural Persons:** any natural person associated with Coastal will not have to register as an adviser solely as a result of their activities as associated persons of Coastal.
- **Special Purpose Vehicles:** an entity (special purpose vehicle or SPV) set up to provide certain services to a private fund advised by Coastal will not have to separately register as investment adviser with the SEC provided:
  - Coastal establishes the SPV to act as the private fund's general partner or managing member;
  - the SPV's formation documents designate the investment adviser to manage the private fund's assets;
  - all of the investment advisory activities of the SPV are subject to the Advisers Act and the rules thereunder, and the SPV is subject to examination by the SEC; and
  - Coastal subjects the SPV, its employees and persons acting on its behalf to Coastal's supervision and control and, therefore, the SPV, all of its employees and the persons acting on its behalf are "persons associated with" the registered adviser (as defined in section 202(a)(17) of the Advisers Act).
- **Relying Advisers:** (currently effective) the Firm may register itself and each other adviser that is controlled by or under common control with Coastal through a single registration statement. See *American Bar Association, SEC No-Action Letter (pub. avail. Jan. 18, 2012)*. Such other advisers are designated "relying advisers" and Coastal, which files the registration statement, is designated as the "filing adviser." Such a registration is permitted if the following conditions are met:
  - The filing adviser and each relying adviser advise only private funds and separate account clients that are qualified clients (as defined in Rule 205-3 under the Advisers Act) and are otherwise eligible to invest in the private funds advised by the filing adviser or a relying adviser and whose accounts pursue investment objectives and strategies that are substantially similar or otherwise related to those private funds;

- Each relying adviser, its employees and the persons acting on its behalf are subject to the filing adviser's supervision and control and, therefore, each relying adviser, its employees and the persons acting on its behalf are "persons associated with" the filing adviser (as defined in section 202(a)(17) of the Advisers Act);
- The filing adviser has its principal office and place of business in the United States and, therefore, all of the substantive provisions of the Advisers Act and the rules thereunder apply to the filing adviser's and each relying adviser's dealings with each of its clients, regardless of whether any client or the filing adviser or relying adviser providing the advice is a United States person;
- The advisory activities of each relying adviser are subject to the Advisers Act and the rules thereunder, and each relying adviser is subject to examination by the SEC;
- The filing adviser and each relying adviser operate under a single code of ethics adopted in accordance with Advisers Act Rule 204A-1 and a single set of written policies and procedures adopted and implemented in accordance with Advisers Act Rule 206(4)-(7) and administered by a single chief compliance officer in accordance with that rule; and
- The filing adviser discloses in its Form ADV (Miscellaneous Section of Schedule D) that it and its relying advisers are together filing a single Form ADV in reliance on the position expressed in this letter and identifies each relying adviser by completing a separate Section 1.B., Schedule D, of Form ADV for each relying adviser and identifying it as such by including the notation "(relying adviser)."
- **Relying Advisers - Umbrella Registration:** (effective when 5.20.2015 proposed amendments are adopted) Coastal may register itself and each other adviser that is controlled by or under common control with Coastal through a single registration statement. Such other advisers are designated "relying advisers" and Coastal, which files the registration statement, is designated as the "filing adviser." Such a registration is permitted if the following conditions are met:
  - Coastal (filing adviser) and one or more relying advisers conduct a single private fund advisory business and each relying adviser is controlled by or under common control with Coastal (the filing adviser);
  - Coastal (filing adviser) and each relying adviser advise only private funds and clients in separately managed accounts that are qualified clients (as defined in Rule 205-3 under the Advisers Act) and are otherwise eligible to invest in the private funds advised by the filing adviser or a relying adviser and whose accounts pursue investment objectives and strategies that are substantially similar or otherwise related to those private funds;
  - Coastal (filing adviser) has its principal office and place of business in the United States and, therefore, all of the substantive provisions of the Advisers Act and the rules thereunder apply to the filing adviser's and each relying adviser's dealings providing the advice is a United States person;
  - Each relying adviser, its employees and the persons acting on its behalf are subject to Coastal's filing adviser's supervision and control and, therefore, each relying adviser, its employees and the persons acting on its behalf are "persons associated with" Coastal (filing adviser) (as defined in Section 202(a)(17) of the Advisers Act);
  - The advisory activities of each relying adviser will be subject to the Advisers Act and the rules thereunder, and each relying adviser is subject to examination by the SEC;
  - Coastal (filing adviser) and each relying adviser will operate under a single code of ethics adopted in accordance with Rule 204A-1 under the Advisers Act and a single set of written policies and procedures adopted and implemented in accordance with Rule 206(4)-(7) under the Advisers Act and administered by a single chief compliance officer in accordance with that Rule; and
  - Coastal (filing adviser) will file and keep up-to-date, as required, Schedule R to its Form ADV, which contains certain identifying information.

### 11.3.1.7 Venture Capital Adviser Exemption

[Investment Advisers Act of 1940 Rule 203(1)-1]

If Coastal provides investment advice solely to venture capital funds, it will not be required to register with the SEC as an investment adviser. However, it will have the status of an "exempt reporting adviser" and as such be required to file certain (but not all) information required by Form ADV with the SEC.

A venture capital fund is an entity that:

- holds no more than 20% of its capital commitments in non-qualifying investments (other than short-term holdings); qualifying investments generally consist of equity securities of qualifying portfolio companies;
- does not borrow or otherwise incur leverage, other than limited short-term borrowing (excluding certain guarantees of qualifying portfolio company obligations by the fund);
- does not offer its investors redemption or other similar liquidity rights except in extraordinary circumstances;
- represents itself as pursuing a venture capital strategy to its investors and prospective investors; and
- is not registered under the Investment Company Act of 1940 and has not elected to be treated as a business development company (BDC).

The Chief Compliance Officer, where necessary, will refer to definitions in Rule 203(1)-1 when reviewing whether this exemption is available to Coastal.

### **11.3.2 SEC vs. State Registration and AUM Calculation**

Coastal will register, and maintain its registration, with the proper regulatory authority based upon client assets it has under management.

#### **11.3.2.1 Calculation of Assets Under Management**

Coastal is required to calculate its assets under management for various regulatory reasons, including disclosure in Part 1A and Part 2A (Firm Brochure) of its registration statement.

##### **11.3.2.1.1 Proper Regulatory Authority AUM Determination**

When calculating assets for purposes of determining the proper regulatory authority pursuant to Items 2.A. and 5.F. of Part 1A of Form ADV, Coastal will count assets as being under its management only if they are in "securities portfolios" with respect to which Coastal provides "continuous and regular supervisory or management services."

##### **Securities Portfolios**

An account is a "securities portfolio" if at least 50% of the total value of the account consists of securities. For purposes of this 50% test, Coastal may treat cash and cash equivalents (*i.e.*, bank deposits, certificates of deposit, bankers acceptances, and similar bank instruments) as securities. Coastal may include securities portfolios that are:

- family or proprietary accounts (unless Coastal is a sole proprietor, in which case its personal assets must be excluded);
- accounts for which Coastal receives no compensation for its services; and
- accounts of clients who are not U.S. residents.

The value of the portfolio includes the entire value of each securities portfolio for which Coastal provides continuous and regular supervisory or management services. If Coastal provides continuous and regular supervisory or management services for only a portion of a securities portfolio, it will include as assets under

management only that portion of the securities portfolio for which Coastal provides such services. It will exclude, for example, the portion of an account:

- under management by another advisory firm; or
- that consists of real estate or businesses whose operations Coastal manages on behalf of a client but not as an investment.

Coastal will not deduct securities purchased on margin.

### **Continuous and Regular Supervisory or Management Services**

Coastal is deemed to provide continuous and regular supervisory or management services with respect to an account if:

- Coastal has discretionary authority over and provides ongoing supervisory or management services with respect to the account; or
- Coastal (even if it does not have discretionary authority) has ongoing responsibility to select or make recommendations, based upon the needs of the client, as to specific securities or other investments the account may purchase or sell, and, if such recommendations are accepted by the client, Coastal is responsible for arranging or effecting the purchase or sale.

When the Chief Compliance Officer evaluates whether Coastal provides "continuous and regular supervisory or management services" to an account, the Chief Compliance Officer shall consider the following factors:

- **Terms of the advisory contract.** If Coastal agrees in its advisory contract to provide "continuous and regular supervisory or management services," this suggests that Coastal provides these services for the account.
- **Form of compensation.** If Coastal is compensated based on the average value of the client's assets it manages over a specified period of time, this fact suggests that Coastal provides "continuous and regular supervisory or management services" for the account.
- **Management practices.** The extent to which Coastal actively manages assets or provides advice bears on whether the services Coastal provides are "continuous and regular supervisory or management services." The fact that Coastal makes infrequent trades (e.g., based on a "buy and hold" strategy) does not mean its services are not "continuous and regular."

The Chief Compliance Officer will deem Coastal to not provide "continuous and regular supervisory or management services" over an account where it:

- provides market timing recommendations (i.e., to buy or sell), but has no ongoing management responsibilities;
- provides only impersonal investment advice (e.g., market newsletters);
- makes an initial asset allocation, without continuous and regular monitoring and reallocation; or
- provides advice on an intermittent or periodic basis (such as upon client request, in response to a market event, or on a specific date (e.g., the account is reviewed and adjusted quarterly)).

#### **11.3.2.1.2 Firm Brochure (Part 2A) AUM Disclosure**

Form ADV, Part 2A allows Coastal flexibility when calculating its assets under management for purposes of the Brochure.

The SEC stated when adopting the amendments to Form ADV that created Part 2A that the "methodology for calculating assets required under Part 1A is designed for a particular purpose (i.e., for making a determination as to whether an adviser should register with the SEC or with the states), rather than to convey meaningful information about the scope of the adviser's business. Thus, [the SEC permits] advisers to use a different

methodology for Part 2A disclosure."

Coastal will disclose the amount of client assets that it manages on a discretionary basis and the amount of client assets it manages on a non-discretionary basis. It will disclose the date "as of" which it calculated the amounts.

If Coastal chooses to use a different method to compute its assets under management, it will check "Yes" on Item 5.J.(2) of Part 1A of Form ADV (when this new item has been adopted by the SEC) and it will keep documentation describing the method Coastal uses.

### 11.3.2.1.3 AUM Update

Coastal will update the amount of its assets under management annually (as part of its annual updating amendment) and make interim amendments only for material changes in assets under management when it is filing an "other than annual amendment" for a separate reason.

### 11.3.2.2 Registration Thresholds

Coastal will register, or remain registered, with the SEC or a state depending on which of the following categories its assets under management (AUM) fall within at the end of its fiscal year end:

Over \$110 million of AUM	Register or remain registered with SEC
\$90 million to \$110 million of AUM	If currently registered with the SEC, remain registered with SEC If not registered with the SEC or a state, register with the SEC if \$100 million or more of AUM and register with a state if under \$100 million of AUM If registered with a state, can remain registered with the state until \$110 million or more of AUM or register with the SEC when \$100 million or more of AUM
Advisers of any size with a principal office and place of business in New York and Wyoming	Register or remain registered with the SEC (currently New York does not inspect investment advisers and Wyoming does not have a law that regulates investment advisers)
Less than \$90 million of AUM	Register or remain registered with appropriate state(s)
Advisers with only Hedge Fund Clients	Register or remain registered with SEC if \$150 million or greater of AUM; if less than \$150 million of AUM, register with appropriate state(s) or rely upon an available exemption to state registration. An adviser with only hedge fund clients with less than \$150 AUM may potentially file with the SEC as an "Exempt Reporting Adviser."

Of particular note, the securities regulator in New York currently does not inspect investment advisers. In such a case, the adviser that manages hedge funds would only register in New York if it manages seven or more hedge funds since each hedge fund is treated as a single client under New York law.

If Coastal has to change its registration status, it must effect such change within 90 days of its fiscal year end.

On 12/31 of each year, Coastal will calculate its assets under management as of the end of its most recent fiscal year end.

If it is an SEC-registered adviser, once Coastal reports on its annual updating amendment that it has assets under management not meeting the threshold required by the SEC to register with that agency and is not otherwise eligible to register with the SEC, it will file a registration statement (Form ADV) with the appropriate state(s) and withdraw from its SEC registration within 90 days after the filing of its annual updating amendment by filing Form ADV-W with the SEC.

If it is a state-registered adviser, once Coastal reports on its annual updating amendment that it has assets meeting a threshold that will allow it or require it to register with the SEC, it will file a registration statement (Form ADV) with the SEC and withdraw from its state registration(s) within 90 days after the filing of its annual updating amendment by filing Form ADV-W with the appropriate states.

If it is a state-registered or SEC-registered adviser and reports on its annual updating amendment that it has assets under management that is between a range that allows it to be an SEC- or state-registered adviser, Coastal will decide whether to maintain its current registration, switch from SEC registration to state registration or switch from state registration to SEC.

Irrespective of its assets under management, Coastal will register or remain registered as an investment adviser with the SEC, if it is an investment adviser to a registered investment company or is located in the State of Wyoming.

### **11.3.3 IARD Registration**

The Investment Adviser Registration Depository (IARD) is an electronic investment adviser filing system that is sponsored by the SEC and the North American Securities Administrators Association (NASAA). FINRA operates the system. The SEC and most states require an investment adviser to use the IARD system to apply for registration, amend its registration, withdraw from registration, and transmit notice filings to states.

#### **11.3.3.1 IARD Registration and Administration**

Coastal employs the following controls related to its registration on the IARD:

1. The Chief Compliance Officer will maintain supporting documents regarding the date of registration commencement with the SEC and related file numbers.
2. The Chief Compliance Officer will designate a qualified employee or officer of Coastal to be the "Super Account Administrator" or ("SAA"), who will be responsible for:
  - the web/electronic filing and updates to Part 1A of Coastal's Form ADV through the IARD,
  - payment of initial and annual IARD filing fees,
  - controlling who within Coastal and persons employed by firm service providers who will have the ability to access Coastal's Form ADV housed on the IARD system, and
  - all functions related to FINRA Entitlement.

#### **FINRA Entitlement**

FINRA Entitlement is the process by which a user is granted secure access to a FINRA web application by an account administrator who maintains that account. Entitlement includes creating and deleting accounts and granting and denying specific privileges within an application for a given user so that the user may access specific functionality that the privilege supports.

Coastal will make all necessary filings (including the FINRA Account Administrator Entitlement Form) with, and take other actions required by FINRA, to effect the designation of the SAA. The SAA will have the ability to create, modify and delete other account administrators for Coastal, as well as control their access to various parts of the Form ADV and functions available on FINRA that relate to the Form ADV, including the following statuses:

- Reader: provides the capability for a user to read data (including access to the eFOCUS application);
- Editor: provides the capability for a user to save filings, create amendments and import filings;
- Approver: provides the capability for a user to approve saved filings; and
- Submitter: provides the capability for a user to submit saved filings.

3. The SAA shall perform, or delegate others at Coastal to perform, the following functions related to the IARD:

- Creating, disabling and deleting FINRA Entitlement Users Accounts;
- Performing password administration (e.g., creating initial passwords, unlocking accounts and resetting passwords for users);
- Setting privileges for the FINRA Entitlement User Accounts;
- Performing account maintenance to validate active users or delete dormant users;
- Cloning (copying) a user's privilege to create a new account; and
- Controlling the maintenance and assignment of user IDs and periodically reviewing Coastal's user accounts and, consistent with FINRA procedures, certifying on behalf of Coastal that all designated users should retain their authorization.

#### IARD Registration Functionality

A user will be granted access to a particular functionality within an application when he or she has been given by the SAA "use" entitlement to the application and the privilege within that application. The default application and the privilege with that application is "none," which means that the user cannot access that functionality. For example, if a user needs to view firm investment personnel information in WEB CRD, the SAA when he or she creates that user's account must give such user the "use" entitlement to the CRD application, "use" entitlement to the individual section of privileges and "use" entitlement to the View individual information privilege.

The SAA will periodically review the "IARD Announcements" web page on the SEC's web site and monitor for notices sent via e-mail by FINRA to Coastal for news related to IARD registration. The following types of information may be posted at this site:

- Changes to Coastal's registration status;
- Annual amendment filing deadlines; and
- Announcements by the SEC of regulatory and compliance information.

IARD Website Address:	<a href="https://www.webiard.com/iad">https://www.webiard.com/iad</a>
	<a href="https://www.webcrd.com">https://www.webcrd.com</a>
IARD Announcements	<a href="http://www.sec.gov/divisions/investment/iard.shtml">http://www.sec.gov/divisions/investment/iard.shtml</a>
Tech Support Number:	1-240-386-4848 or 301-869-6699
Mailing Address:	FINRA 9509 Key West Avenue Rockville, MD 20850



The SAA will take all steps to ensure that Coastal's IARD registration is current. When necessary, the SAA shall refer to the following, which are available on the IARD web site:

- IARD Renewal Program Checklist
- IARD Renewal Program Calendar

Annually, the SAA will make all necessary filings with FINRA to renew Coastal's IARD registration. The SAA will verify the ending date of the FINRA Entitlement User Accounts Certification Period for the current year, which typically falls in February of each year. The SAA will have to make an annual certification if Coastal has more than one user. The SAA, when necessary, will refer to the Annual Entitlement User Accounts Certification Process Web page on the IARD web site.

### **11.3.3.2 State Notice Filings**

If Coastal is registered with the SEC, it will not be required to register with any state. However, Coastal will be required to make "notice" filings of all materials filed with the SEC in certain states. Generally, Coastal will be required to make notice filings only in states where either it has clients or it has an office. In connection with state notice filings, the Chief Compliance Officer will:

- Maintain a list and keep such list updated of clients broken down by states where they reside;
- Maintain a list and keep such list updated of the states where Coastal has an office;
- Review the notice filing requirements of each state where Coastal has one or more clients or an office. Some states require notice filings only if an adviser has five or more clients located in that state. Some states exempt certain types of persons or entities (*e.g.*, an institutional investor) from counting as clients for notice filing purposes. Still other states do not require a notice filing unless the investment adviser has an office in that state. The Chief Compliance Officer will look for available exemptions to the notice filing requirement. If no exemption is available, the Chief Compliance Officer will ascertain what the notice filing must contain;
- Maintain a list of all states where notice filings are required and include on that list the filing deadlines; and
- On a timely basis, make all required initial and renewal notice filings. To make a notice filing, Coastal will check the box next to the appropriate states listed in Part 1A (Item 2.C.) of its Form ADV. When Coastal submits its annual amendment to its Form ADV via the IARD system, it will automatically make notice filings in the states that are checked. Prior to making the notice filings, Coastal will verify that it has sufficient funds in its IARD Daily Account to cover both state and SEC filing fees.

### **11.3.3.3 Filing Fees**

Coastal shall timely pay all filing fees due on its initial registration and amendments to its registration statement and notice filings. Filing fees generally are due at the time Coastal's annual amendment is filed. To ensure that filing fees are paid, the Chief Compliance Officer will periodically check Coastal's balance in the IARD system, and when necessary, will arrange for additional payments to be made by Coastal to increase the balance so that sufficient funds are available for filing fees.

### **11.3.4 Form ADV**

Form ADV is divided into four parts: the registration form (Part 1A), the state registration form (Part 1B), Part 2A (Firm Brochure) and Part 2B (Brochure Supplement). Each part has the following schedules that may have to be completed depending on Coastal's responses to the questions in Part 1A:

- Schedule A asks for information about an adviser's direct owners and executive officers.
- Schedule B asks for information about an adviser's indirect owners.

- Schedule C is used by paper filers to update the information required by Schedules A and B.
- Schedule D asks for additional information for certain items in Part 1A.
- Disclosure Reporting Pages (or "DRPs") ask for details about disciplinary events involving Coastal or persons affiliated with the adviser. (These are considered schedules too.)

#### **11.3.4.1 Part 1A**

Part 1A consists of a series of fill-in-the-blank, multiple-choice, and check-the-box questions. Part 1A is designed to provide information that assists the SEC (or state securities commission) in determining whether to grant the application for registration or revoke an existing registration. Coastal therefore is not required to deliver Part 1A to clients or prospective clients.

Prior to filing Part 1A or an amendment thereto with the SEC or a state securities commission, the Chief Compliance Officer or its designee will ensure Part 1A and any related schedules are filled out accurately and completely, pursuant to the following guidelines:

##### **11.3.4.1.1 Identifying Information (Item 1)**

The Chief Compliance Officer will make sure all information identifying Coastal reported in Item 1 is accurate and up-to-date, and promptly will file an amendment to Part I if there is an address change, telephone number change or other material change to this information.

##### **11.3.4.1.2 SEC Registration (Item 2)**

When responding to this item, the Chief Compliance Officer will make sure all information is accurate and up-to-date, and promptly will file an amendment to Part 1 if there is a material change to this information.

##### **11.3.4.1.3 Form of Organization (Item 3)**

The Chief Compliance Officer shall correctly identify the form of Coastal's organization in Item 3.

##### **11.3.4.1.4 Successions (Item 4)**

Item 4 is applicable only if Coastal has (1) taken over the business of an investment adviser or (2) has changed its structure or legal status (e.g., form of organization or state of incorporation) or a new organization has been created. If this is the case, the Chief Compliance Officer will respond in the appropriate manner to the questions answered in this item. When so responding, the Chief Compliance Officer shall refer to "Registration of Successors to Broker-Dealers and Investment Advisers," Investment Advisers Act Release No. 1357 (Dec. 28, 1992).

##### **11.3.4.1.5 Information About the Advisory Business (Item 5)**

When responding to this item, the Chief Compliance Officer shall review documents, including Coastal's standard Investment Advisory Contract.

#### **11.3.4.1.6 Other Business Activity (Item 6)**

If the Chief Compliance Officer indicates that Coastal engages in other business activities, the Chief Compliance Officer will describe the other business activities of Coastal in Schedule F of Part II of Coastal's Form ADV and any conflicts of interest caused by such activities.

#### **11.3.4.1.7 Financial Industry Affiliations (Item 7)**

In responding to the request for information about Coastal and its related persons, the following persons will be deemed to be "related persons":

- The officers, partners, or directors (or any person performing similar functions) of Coastal;
- Persons directly or indirectly controlling or controlled by Coastal; and
- The employees of Coastal (other than employees performing only clerical, administrative, support or similar functions).

When determining whether a person or entity is controlling or controlled by another person or entity, the Chief Compliance Officer shall consider the definition of "control" set forth herein.

#### **11.3.4.1.8 Participation or Interest in Client Transactions (Item 8)**

With respect to any affirmative answer in Item 8, the Chief Compliance Officer shall describe the arrangement in Part 2A (Firm Brochure) of Coastal's Form ADV, including conflicts of interest that may occur between Coastal and its clients.

#### **11.3.4.1.9 Custody (Item 9)**

When responding to this item, the Chief Compliance Officer will consult with the procedures set forth in the Custody chapter of this Compliance Manual. In addition, Coastal will include on Form ADV where appropriate:

- whether Coastal has custody over client assets;
- whether a "related person" (as defined in Rule 206(4)-2 under the Advisers Act) has custody over client assets;
- whether Coastal or a related person (i) sends account statements; (ii) retains an independent public accountant to audit financial statements of hedge fund clients; (iii) arranges for an annual surprise examination of client assets; and (iv) arranges for the preparation of an internal control report regarding client custody arrangements;
- the date that any surprise examination began in the last fiscal year of Coastal;
- if Coastal arranges for an annual surprise examination or internal control report, it shall list the independent public accountant performing such function in Schedule D of Coastal's Form ADV, as well as other information about the independent public accountant required by Form ADV;
- whether Coastal or a related person acts as qualified custodian over client assets;
- if a related person acts in a qualified custodian capacity, Coastal will indicate the name of the related person in Schedule D of Coastal's Form ADV, as well as other information about the related person required by Form ADV; and
- if applicable, Coastal will answer any question about overcoming a presumption that a related person is not operationally independent of Coastal.

#### **11.3.4.1.10 Control Persons (Item 10)**

When responding to requests for information about control persons, the Chief Compliance Officer shall consider the following factors regarding what constitutes "control":

- Control means the power, directly or indirectly, to direct the management or policies of a person or company, whether through ownership of securities, by contract, or otherwise.
- Each of Coastal's officers, partners, or directors exercising executive responsibility (or persons having similar status or functions) is presumed to control Coastal.
- A person is presumed to control a corporation if the person: (i) directly or indirectly has the right to vote 25% or more of a class of the corporation's voting securities; or (ii) has the power to sell or direct the sale of 25% or more of a class of the corporation's voting securities.
- A person is presumed to control a partnership if the person has the right to receive upon dissolution, or has contributed, 25% or more of the capital of the partnership.
- A person is presumed to control a limited liability company ("LLC") if the person: (i) directly or indirectly has the right to vote 25% or more of a class of the interests of the LLC; (ii) has the right to receive upon dissolution, or has contributed, 25% or more of the capital of the LLC; or (iii) is an elected manager of the LLC.
- A person is presumed to control a trust if the person is a trustee or managing agent of the trust.

#### **11.3.4.1.11 Disciplinary Disclosure Information (Item 11)**

In this Item, Coastal must provide information about the disciplinary history of Coastal and certain of its employees. It must disclose the material facts about each legal or disciplinary event "material" to an evaluation of Coastal's integrity or ability to meet contractual commitments to clients. The Chief Compliance Officer shall make sure that it answers each question in Item 11 with respect to:

- all of its current employees (other than employees performing only clerical, administrative, support or similar functions);
- all of its officers, partners, or directors (or any person performing similar functions); and
- all persons directly or indirectly controlling Coastal or controlled by Coastal.

The Chief Compliance Officer will review the instructions of Item 11 to determine how many years back (typically 10 years) it has to report a disciplinary action and conduct due diligence (e.g., check FINRA and other data bases) on each applicable employee. The following factors should be considered when determining if an event is "material":

- the distance of the entity or individual from the advisory function;
- the nature of the infraction;
- the severity of the sanction; and
- time that has elapsed since the event occurred.

Whether or not the disciplinary event occurred within ten years or over ten years ago is a significant fact that Coastal will consider. The same event may be material if it occurred five years ago, but not material if it occurred over 10 years ago. In some circumstances, an event will not be deemed material if it happened one month ago and thus would not have to be disclosed. See *Investment Advisers Act Rel. No. 1083*.

Coastal will deem the following events to be material and disclosable if they occurred within the last ten years:

- conviction or guilty or nolo contendere ("no contest") plea in a domestic, foreign, or military court to any felony;
- felony charge;
- conviction or guilty or nolo contendere ("no contest") plea in a domestic, foreign, or military court to a misdemeanor involving: investments or an investment-related business, or any fraud, false statements, or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;
- SEC or CFTC finding of a false statement or omission;

- SEC or CFTC finding of a violation of SEC or CFTC regulations or statutes;
- Finding that resulted in an investment-related business having its authorization to do business denied, suspended, revoked, or restricted;
- Administrative order in connection with investment-related activity;
- Imposition of a civil money penalty;
- Cease and desist order;
- Federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority finding of:
  - a false statement or omission, or a dishonest, unfair, or unethical act;
  - a violation of investment-related regulations or statutes;
  - a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted.
- Federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority order denying, suspending or revoking registration or license, or otherwise preventing association with an investment-related business or restricting activity;
- Self-regulatory organization or commodities exchange finding of:
  - a false statement or omission;
  - a violation of its rules (other than a violation designated as a "minor rule violation" under a plan approved by the SEC);
  - a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted; or
  - an expulsion or suspension; or barring membership from association with other members, or otherwise restriction of activities.
- Revocation or suspension to act as an attorney, accountant, or federal contractor;
- Domestic or foreign court:
  - finding in the past ten years, enjoining Coastal or any advisory affiliate in connection with any investment-related activity;
  - finding that Coastal or any advisory affiliate was involved in a violation of investment-related statutes or regulations;
  - dismissal, pursuant to a settlement agreement, of an investment-related civil action brought against Coastal or any advisory affiliate.

#### **11.3.4.2 Part 1B**

Part 1B asks additional questions required by state securities authorities. If Coastal is applying for registration or is registered with the SEC, it does not have to complete Part 1B.

#### **11.3.4.3 Part 2A**

Part 2A, also called the "Firm Brochure" is both part of Coastal's registration statement and the brochure that Coastal provides to clients and prospective clients. The Firm Brochure is a narrative document that must contain disclosure addressing 18 separate items listed in Part 2A.

#### **Content**

The Firm's Brochure must cover the following 18 required items set forth in Part 2A. (The 19th required item is applicable only to state-registered investment advisers). The Chief Compliance Officer or other Firm employee responsible for the Form ADV shall refer to and meet each of the requirements set forth in Form ADV, Part 2A, which are highlighted herein, when preparing and updating the Firm's Brochure.

#### **Order of Content**

Coastal must respond in a pre-determined order and use the headings required by Part 2A.

#### **11.3.4.3.1 Cover Page**

The cover page (or front cover) of the Firm Brochure will contain Coastal's:

- Name
- Address
- Contact information
- Web site address (if any)

The cover page also will include the following standard SEC regulatory disclaimer in bold print:

**This brochure provides information about the qualifications and business practices of Coastal. If you have any questions about the contents of this brochure, please contact us at (888) 657-5200 or [compliance@coastal-one.com](mailto:compliance@coastal-one.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Coastal Investment Advisors, Inc. also is available on the SEC's website at <http://www.adviserinfo.sec.gov>.**

The cover page will contain the date of the Firm Brochure and the date that the Firm Brochure was last updated.

If Coastal refers to itself as a "registered investment adviser" or describes itself as being "registered," it will include a statement that registration does not imply a certain level of skill or training.
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#### **11.3.4.3.2 Summary of Material Changes**

Upon the first amendment to the Firm's Brochure (and not the initially created Brochure that is first filed with the SEC), Coastal shall create an annual summary of the material changes to its Firm Brochure. This summary shall be created in connection with each subsequent update. The summary shall describe the material changes made to the Firm's Brochure since its last update.

The summary will be placed:

- on the cover page of the Firm Brochure,
- on the page following the cover page, or
- as a separate exhibit that accompanies the Firm's Brochure.

#### **11.3.4.3.3 Table of Contents**

The Firm's Brochure will contain a table of contents that lists the 18 required items set forth in Part 2A. The Table of Contents will list the items in the same order of the 18 items listed in Part 2A. Coastal may also include sub-headings.

#### **11.3.4.3.4 Advisory Business**

Coastal shall describe its advisory business consistent with the instructions in Item 4, including whether it holds itself out as specializing in a particular type of advisory service. When providing its assets under management

("AUM") as required by that item, Coastal may use different methodologies from those used in calculating AUM in its Form ADV Part 1. If so, Coastal will retain records supporting its calculations.

#### **11.3.4.3.5 Fees and Compensation**

The Chief Compliance Officer shall review the fee tables and other compensation provisions of the advisory agreements Coastal has with its clients. Based on this review, the Brochure shall disclose the range of its fees in a fee table and other compensation Coastal or its personnel receives, including commissions for the sale of a security or other investment product. As required by Item 5, Coastal shall describe the conflicts raised by any compensation practices and how it addresses these conflicts.

#### **11.3.4.3.6 Performance Fees and Side-By-Side Management**

The Chief Compliance Officer shall review the advisory agreements Coastal has with its clients to see if it charges any performance fees. If so, Coastal shall disclose that it charges performance fees or has advisory personnel who manage accounts that pay performance fees. If Coastal manages some accounts that are subject to a performance fee and other accounts that are not subject to a performance fee, it will describe:

- the conflicts of interest arising from the side-by-side management of performance-based fee accounts and the other accounts; and
- how the adviser addresses those conflicts.

#### **11.3.4.3.7 Types of Accounts**

The Chief Compliance Officer shall review the types of advisory clients that Coastal provides advisory services to and Coastal's requirements for opening and maintaining client accounts and accurately report this information in response to Item 7 of Part 1A of Form ADV.

#### **11.3.4.3.8 Adviser Disciplinary Information**

The Chief Compliance Officer in responding to this item will use the disciplinary disclosure Coastal has made in Part 1A of the Form ADV and SEC adopted as proposed the requirement that advisers disclose legal and disciplinary events. The Chief Compliance Officer will make sure that the two sets of disclosure are consistent.

When responding to this disclosure item in Part 1A, Coastal notes that the SEC takes the position that involvement in certain disciplinary events are presumed to be material unless the event was resolved in the adviser's (or the management person's) favor, was reversed, suspended or vacated, or the adviser rebutted the presumption of materiality. An adviser may rebut the presumption of materiality and not disclose certain disciplinary events if it documents its analysis and retains such documentation so that the SEC can monitor compliance with this particular disclosure requirement.

#### **11.3.4.3.9 Other Financial Industry Activities and Affiliations**

The Chief Compliance Officer before responding to this item will review relationships Coastal and its principals have with other entities. The Chief Compliance Officer will summarize this information in narrative form. This disclosure shall include the material conflicts related thereto and explain how Coastal addresses such material

conflicts. Prior to including this information in the Firm Brochure, the Chief Compliance Officer will circulate this narrative to the principals of Coastal for their review and input.

#### **11.3.4.3.10 Code of Ethics**

The Chief Compliance Officer will review Coastal's Code of Ethics and personal trading compliance program. In addition to disclosing information, the narrative responding to this item will describe how Coastal's personnel may participate in or have interests in client transactions and the conflicts related to such practice and how Coastal addresses such conflicts.

#### **11.3.4.3.11 Brokerage Practices**

The Chief Compliance Officer will review the brokerage practices of Coastal, including how it selects broker-dealers, brokerage arrangements and soft dollars. In connection with this review, the Chief Compliance Officer will consult with advisory personnel who place trades. Based on this review, the Chief Compliance Officer or delegate shall draft disclosure describing arrangements. In particular, the disclosure shall describe the following arrangements if applicable:

- *Soft Dollars*: the disclosure shall describe the products and services that Coastal acquires, with more specific disclosure for products and services that do not qualify for the safe harbor in section 28(e) of the Securities Exchange Act of 1934. The disclosure will discuss the conflicts of interests associated with accepting soft dollar benefits and how Coastal addresses those conflicts.
- *Client Referrals*: If Coastal uses client brokerage to compensate brokers for client referrals, Coastal will disclose this arrangement and the conflicts of interests that these arrangements present. In addition, the disclosure will describe the procedures related to directing brokerage to referring brokers.
- *Directed Brokerage*: The disclosure will discuss directed brokerage arrangements. If Coastal permits clients to direct brokerage, it will disclose that directing brokerage may be more costly for the client and may prevent the adviser from being able to obtain best execution. If Coastal, routinely recommends, requests or requires clients to direct brokerage then Coastal must also disclose that not all investment advisers require such directed brokerage arrangements.
- *Trade Aggregation*: The Firm will describe whether and when it aggregates trades, and if they do not aggregate trades despite having the opportunity to do so, they must explain that clients may end up paying higher brokerage costs.

#### **11.3.4.3.12 Review of Accounts**

The Chief Compliance Officer will consult with advisory personnel and other relevant personnel regarding the process for reviewing client accounts and, based on this information, disclose how often Coastal reviews client accounts. If Coastal reviews accounts other than regularly, it will disclose the triggering factor(s) for such reviews. This disclosure will also set forth the titles of those persons conducting the reviews.

#### **11.3.4.3.13 Client Referrals and Other Compensation**

The Chief Compliance Officer will review all arrangements in which Coastal or its related persons compensate others for client referrals. In addition, the Chief Compliance Officer will verify whether Coastal has any arrangements such as sales awards and prizes where Coastal receives economic benefits from any non-clients for providing advisory services to clients. To the extent Coastal enters into such arrangements, it will describe them in its Brochure, as well as disclose the conflicts of interest inherent in such arrangements and to discuss how Coastal addresses such conflicts.



#### **11.3.4.3.14 Custody**

The Chief Compliance Officer will review Coastal's custody arrangements, including how it complies with Rule 206(4)-2 under the Advisers Act (the custody rule) and describe these arrangements in its Brochure. If Coastal has custody over client funds or securities, it will explain how clients receive account statements directly from custodians and that clients should review such account statements carefully. If in addition to receiving statements from a custodian, a client receives an account statement from Coastal, Coastal in this item will explain that the client should compare the two statements against each other.

#### **11.3.4.3.15 Investment Discretion**

The Chief Compliance Officer will review all client investment advisory agreements to determine whether Coastal has investment discretion and/or no investment discretion over client accounts and accurately disclose this in response in its Brochure.

#### **11.3.4.3.16 Voting Client Securities**

The Chief Compliance Officer will consult with the investment personnel or, if applicable, a proxy voting service regarding their proxy voting practices. He or she will also review the client investment advisory agreements and any related agreements to ascertain whether Coastal or the client has proxy voting authority. Based on this information and the consultations, the Chief Compliance Officer will draft disclosure regarding whether Coastal or client has authority to vote client securities. In addition, the disclosure will describe Coastal's voting policies.

In addition, the disclosure shall cover how clients can direct Coastal to vote, how Coastal addresses conflicts of interests when voting securities, and how clients can obtain information on how Coastal voted. The disclosure will also explain how clients may obtain a copy of Coastal's proxy voting policies and procedures upon request. If Coastal does not accept authority to vote, it will explain to clients how they can receive their proxies and solicitations.

#### **11.3.4.3.17 Financial Information**

The Chief Compliance Officer will review client advisory contracts to verify whether they require any clients to prepay advisory fees six months or more in advance. If so, the Chief Compliance Officer will make sure that Coastal obtains an audited balance sheet in a timely manner and includes such balance sheets in the Firm's Brochure in response to this Item 18.

The Chief Compliance Officer will also consult with the principals of Coastal regarding its financial condition. If the Chief Compliance Officer, in consultation with the principals, determines that Coastal's financial condition is reasonably likely to impair its ability to meet contractual commitments, it will disclose this fact in response to Item 18. If Coastal has been subject to a bankruptcy petition in the past 10 years, it will disclose this fact in response to Item 18.

#### **11.3.4.3.18 State-Registered Adviser**

Investment advisers registered with one or more states (and not the SEC) must provide additional information in the adviser's brochure, including additional information about the management personnel of the adviser, activities of the adviser other than providing investment advice, certain performance-fee information, disciplinary information and information about arrangements with certain issuers of securities.

#### **11.3.4.4 Schedules**

Where appropriate, the Chief Compliance Officer will complete Schedules A, B, C and D.

#### **11.3.5 Amendments to Form ADV**

##### **11.3.5.1 Annual Amendment**

Coastal will amend its Form ADV each year by filing an annual updating amendment within 90 days after 12/31, the end of Coastal's fiscal year. In preparation for the annual amendment, the Chief Compliance Officer shall formally review Coastal's Form ADV and will circulate the Form ADV to relevant departments or employees of Coastal and the inside or outside legal counsel for their review and comments.

##### **11.3.5.2 Periodic Amendments**

Coastal will amend its Form ADV promptly if:

- information in response to Items 1, 3, 9, or 11 of Part 1A or Items 1, 2.A. through 2.F., or 2.I. of Part 1B become inaccurate in any way;
- information provided in response to Items 4, 8, or 10 of Part 1A or Item 2.G. of Part 1B become materially inaccurate;
- a financial condition of Coastal occurs or will occur that is likely to impair its ability to meet contractual commitments to any clients who have given Coastal discretionary authority over their accounts or entrusted custody of their assets; or
- a disciplinary action against Coastal or one of its employees that is covered by the disciplinary disclosure provisions of Rule 206(4)-4(a)(2) under the Investment Advisers Act of 1940.

Any person who is a director, officer or owner of Coastal must notify Coastal of any change in information that would require an amendment to the Schedules of Coastal's Form ADV.

##### **11.3.5.3 Definitions of Disciplinary and Financial Events**

Coastal shall make prompt disclosure to clients and prospective clients of certain disciplinary and financial events involving Coastal or any person with a direct or indirect controlling influence over the management or policies of Coastal or the power to determine the general advice given to clients ("Management Personnel") in accordance with the following procedures.

###### **11.3.5.3.1 Disciplinary Event**

The following shall constitute a "Disciplinary Event:"

With respect to Coastal or a person at Coastal with power to exercise, directly or indirectly, a controlling influence over the management or policies of Coastal or to determine the general investment advice given to clients (each a "person").

- A criminal or civil action in a court of competent jurisdiction in which the person:

- was convicted, pleaded guilty or nolo contendere ("no contest") to a felony or misdemeanor, or is the named subject of a pending criminal proceeding (any of the foregoing referred to hereafter as "action"), and such action involved: an investment-related business; fraud, false statements, or omissions; wrongful taking of property; or bribery, forgery, counterfeiting, or extortion;
- was found to have been involved in a violation of an investment-related statute or regulation; or
- was the subject of any order, judgment, or decree permanently or temporarily enjoining the person from, or otherwise limiting the person from, engaging in any investment-related activity.
- Administrative proceedings before the Securities and Exchange Commission, and other federal regulatory agency or any state agency (any of the foregoing being referred to hereafter as "agency") in which the person:
  - was found to have caused an investment-related business to lose its authorization to do business; or
  - was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency denying, suspending, or revoking the authorization of the person to act in, or barring or suspending the person's association with, an investment-related business; or otherwise significantly limiting the person's investment-related activities.
- Self-Regulatory Organization (SRO) proceedings in which the person:
  - was found to have caused an investment-related business to lose its authorization to do business; or
  - was found to have been involved in a violation of the SRO's rules and was the subject of an order by the SRO barring or suspending the person from membership or from association with other members, or expelling the person from membership; fining the person more than \$ 2,500; or otherwise significantly limiting the person's investment-related activities.

#### **11.3.5.3.2 Financial Event**

A "Financial Event" is a financial condition of Coastal that is reasonably likely to impair the ability of Coastal to meet contractual commitments to clients, if Coastal has discretionary authority (express or implied) or custody over such client's funds or securities, or requires prepayment of advisory fees of more than \$500 from such client, 6 months or more in advance.

#### **11.3.5.3.3 Monitoring Disciplinary and Financial Events**

The Chief Compliance Officer will take the following steps to ensure Disciplinary Events are disclosed:

- The Chief Compliance Officer will maintain a list of employees of Coastal who are classified as "management persons;"
- Management person shall be an employee with power to:
  - exercise control over the management or policies of Coastal; or
  - determine the general investment advice given to advisory clients.
- The Chief Compliance Officer will maintain a questionnaire (Compliance Questionnaire) that requests information regarding any Disciplinary Event;
- During the annual amendment/updating process, the Chief Compliance Officer will require each management person to complete the Compliance Questionnaire and return the form to the Chief Compliance Officer for review;
- Each new hire designated as a management person shall be required to complete a Compliance Questionnaire and return the form to the Chief Compliance Officer for review; and
- The Chief Compliance Officer will report any Disciplinary Event in the Form ADV in the manner described herein.

If an employee of Coastal becomes aware of any act that might constitute a Disciplinary or Financial Event, he or she shall promptly inform the Chief Compliance Officer of the act and any relevant facts related to the act.

The Chief Compliance Officer in consultation with inside or outside legal counsel or others shall determine whether the reported act constitutes a Disciplinary or Financial Event after considering the facts and circumstances surrounding the act.

Coastal will:

- Disclose a Disciplinary Event to each client and prospective client; and
- Disclose a Financial Event to each client and prospective client if:
  - Coastal has discretionary authority over or custody of clients; or
  - Requires prepayment of advisory fees of more than \$500 from such clients, six months or more in advance.

Coastal will disclose the Disciplinary Event or Financial Event in writing in Parts 2A (Firm Brochure) and 2B (Brochure Supplement), when appropriate of its Form ADV or separate document:

- Promptly to existing clients; and
- To prospective clients when it delivers Parts 2A and 2B (when appropriate) of its Form ADV.

The Chief Compliance Officer in consultation with inside or outside legal counsel or others shall determine when the Disciplinary Event or Financial Event ceases to exist in accordance with any applicable laws or rules, and take appropriate action, including amending Part 2A or 2B (when appropriate) of Coastal's Form ADV.

#### **11.3.5.4 Amendment Procedures**

The Chief Compliance Officer will be responsible for coordinating, filing and updating Coastal's Form ADV.

##### **11.3.5.4.1 Amendment of Part 1A**

To amend Part 1A of Form ADV, the Chief Compliance Officer will take the following steps:

- Logon to the IARD.
- In the Forms section/tab, choose "ADV New Filing."
- Select the filing type: "Submit Annual Amendment" or "Submit an Other-than-Annual Amendment" to Coastal's registration.
- Enter the appropriate information on the form.
- When the Chief Compliance Officer has finished amending Coastal's Form ADV, he or she will:
  - complete the appropriate Execution Page,
  - run the completeness check,
  - correct any completeness errors, and
  - submit the filing.

##### **11.3.5.4.2 Amendments of Part 2A and Part 2B**

Coastal will amend its Part 2A (Firm Brochure) with any updates at least annually, within 90 days after Coastal's fiscal year end, and in between annual updating amendments when any information in the Part 2A becomes materially inaccurate. All annual and interim updating amendments will be filed with the SEC.

Coastal will amend any Part 2B (Brochure Supplement) promptly if it becomes materially inaccurate. Coastal is not required to update its Part 2Bs on an annual basis.

Neither the Part 2Bs nor any amendments to the Part 2Bs are required to be filed with the SEC. Coastal will maintain in its files copies of all Part 2Bs and any amendments thereto.

## 11.3.6 Regulation BI

[Form CRS Relationship Summary, Amendments to Form ADV, Investment Advisers Act Rel. No. 5247 (June 5, 2019)]

Regulation BI is an SEC regulation that requires an investment adviser and its IARs to act in the best interest of its retail client at the time investment advice is provided, without placing the financial or other interest of Coastal or its IAR ahead of the interests of the retail client.

The SEC designed the Relationship Summary (Form CRS) to provide advisory clients with succinct information about the relationships and services the adviser offers, fees and costs that clients will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things.

In 2020, SEC-registered investment advisers will be required to deliver Form CRS to all existing clients who are retail investors on an initial one-time basis within 30 days after the date the Firm is first required to file its relationship summary with the SEC. The SEC designed the Relationship Summary to provide advisory clients with succinct information about the relationships and services the adviser offers, fees and costs that clients will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things

### 11.3.6.1 Relationship Summary

A Relationship Summary is a disclosure document designed by the SEC to clarify the relationship between Coastal Investment Advisors and its retail (but not non-retail) clients. An investment adviser without retail customers is not required to provide a Relationship Summary to its clients or submit such document to regulators. Form CRS sets forth the required contents of a Relationship Summary. Form CRS must be filed with the SEC and delivered to retail clients.

The Firm's Relationship Summary shall consist of the following sections completed in accordance with the Item Instructions of Form CRS and be presented in the order given below:

#### 1. Introduction and Date (Item 1 of Form CRS)

The date of the Relationship Summary must appear prominently at the beginning of the Relationship Summary (e.g., in the header or footer of the first page or in a similar location for a Relationship Summary provided electronically) and make the other requirements of Item 1 of Form CRS.

#### 2. Relationships and Services (Item 2 of Form CRS)

Coastal's investment advisory services offered to retail clients shall be disclosed in the Relationship Summary including summaries of the principal services, accounts, or investments it makes available to retail clients, and any material limitations on such services. Additionally, this section must include the five "conversational services" listed in Item 2 of Form CRS.

#### 3. Fees, Costs, Conflicts and Standards of Conduct (Item 3 of Form CRS)

The Firm's ongoing asset-based fees, fixed fees, wrap fee program fees, or other direct fee arrangements, as well as other fees and costs related to its advisory services shall be disclosed in its Relationship Summary. In addition, the Firm will include all required legends and cross-references to its Form ADV.

#### 4. Disciplinary History (Item 4 of Form CRS)

The Firm's disciplinary history shall be disclosed in its Relationship Summary as well as the required "Conversational Starters."

#### 5. Additional Information (Item 5 of Form CRS)

The Relationship Summary will set forth where the retail client can find additional information about its investment advisory services and request a copy of the Relationship Summary as well as a telephone number where retail investors can request up-to-date information and request a copy of the Relationship Summary. The required "Conversational Starters" must be included.

## 6. Plain English

Coastal's Relationship Summary must:

- be written in Plain English;
- be written with short sentences and paragraphs;
- consist of everyday words;
- use active voice; and
- avoid double negatives.

## 8. Accurate and Balanced

Coastal's Relationship Summary will be accurate and not omit any material facts necessary in order to make the disclosures required by Form CRS not misleading. Such disclosure shall also be balanced including the description of the Firm's services.

## 9. Noticeable and Prominent Text

Coastal's Relationship Summary will use text features that make the following more noticeable and prominent in relation to other discussion text:

- "Conversational Starters;"
- description of its services;
- fees; and
- conflicts of interest.

### 11.3.6.1.1 Relationship Summary Delivery and Posting

1. General Delivery. Form CRS must be provided before or at the earliest of the establishment of an advisory relationship with the client including, for example:
  - within 30 days after the Firm is first required to file Form CRS with the SEC (all existing retail clients must receive the Relationship Summary within 30 days of that filing date);
  - when the Firm files its Form ADV;
  - when a new account is opened for a new client; and
  - when client requests a copy (in such case, the Firm will provide its Relationship Summary within 30 days of the request).
2. Electronic Delivery. When Coastal delivers its Relationship Summary electronically, the Relationship Summary will be:
  - no longer than the equivalent of two pages in paper format;
  - presented prominently in the electronic medium; e.g., as a direct link or in the body of an e-mail or message, or a PDF attachment and
  - easily accessible for clients, including providing a means for clients to facilitate access to any information referenced in the Relationship Summary (e.g., hyperlinks to fee schedules).
  - **Delivery by email is conducted by the IAR to the customer. The email must 'cc' [FormCRS@coastal-one.com](mailto:FormCRS@coastal-one.com) with the client's name in the subject line (LAST NAME, FIRST NAME)**
  - **IARs are responsible for obtaining valid email addresses for clients and must report any bounced email to their supervisor immediately. No account may be opened unless delivery of Form CRS is in good order.**
  - Supervisors and Compliance will have access to [FormCRS@coastal-one.com](mailto:FormCRS@coastal-one.com) in order to confirm delivery of Form CRS prior to approving a new account.

3. Paper Delivery. A paper Relationship Summary may be no longer than two pages. When the Firm delivers its Relationship Summary in paper format as part of a package of documents, the Relationship Summary will be the first among any documents that are delivered at that time. **IARs are required to maintain a delivery log of paper delivery of Form CRS when delivered by hand or by mail, to include date of delivery, method of delivery, name and address of the person to whom it was delivered, title of the document delivered with the effective date of the form, and signature of the person who delivered the document.** The delivery log should be forwarded to your supervisor on a regular basis, and at least prior to the firm's acceptance of a new account agreement. Supervisors must archive reviewed logs in the Firm's network.
4. Website. Coastal will post its Relationship Summary on its website.

#### 11.3.6.1.2 Relationship Summary Updates

Coastal will:

1. update its Relationship Summary and file the updated Relationship Summary with the SEC within 30 days whenever any information in the document becomes materially inaccurate, and such filing shall highlight the material changes; and
2. provide electronically or otherwise free of charge either:
  - o a summary of the updated Relationship Summary to clients within 60 days after the updates; or
  - o the updated Relationship Summary.

#### 11.3.6.1.3 Relationship Summary Filings

Coastal shall file a Form CRS containing its Relationship Summary with the SEC electronically via IARD:

- Initially upon the first time filing date applicable to the Firm as specified in Sections 7.A. and 7.C. of that Form;
- Annually as Part 3 of the Firm's Form ADV update filing; and
- Within 30 days whenever information in the Relationship Summary becomes materially inaccurate and including an exhibit that highlights the changes.

#### 11.3.6.2 Relationship Summary (Form CRS) Filing Requirement

On or after June 30, 2020, the SEC will not accept any initial applications for registration as an investment adviser that do not include a Form CRS that satisfies the requirements of Part 3 of Form ADV. Beginning on May 1, 2020, any initial application for registration as an investment adviser filed prior to June 30, 2020, must include a Form CRS that satisfies the requirements of Part 3 of Form ADV by no later than June 30, 2020. If Coastal Investment registered with the SEC or has an application for registration pending with the SEC prior to June 30, 2020, it must amend its Form ADV by electronically filing with IARD its initial Form CRS that satisfies the requirements of Part 3 of Form ADV (as amended effective September 30, 2019) beginning on May 1, 2020 and by no later than June 30, 2020.

#### Ordinary Filings

By the compliance date, Coastal Investment Advisors must file its Form CRS electronically with the SEC through the Central Registration Depository (Web CRD) operated by the Financial Industry Regulatory Authority, Inc. (FINRA), and thereafter, file an annual amended Form CRS in accordance with the instructions in Form CRS. Coastal Investment will make such filing in a text-searchable format and the filing will be structured with machine-readable headings.

#### Amendment Filings

Coastal will file an amended Relationship Summary as an other-than-annual amendment or by including the relationship summary as part of an annual updating amendment, within the 30 days in which they are required to file the amendment.

Coastal will submit amended versions of its Relationship Summary as part of its annual updating amendment

### **11.3.7 Adviser Representative Registration**

Most states require investment advisers to file registration statements for their investment adviser representatives on Form U-4 through the IARD system.

#### **11.3.7.1 Investment Adviser Representative Status**

The Chief Compliance Officer is responsible for reviewing the functions of each employee of Coastal to determine whether such employee meets the definition of "investment adviser representative." An employee shall only have the title and status of "Adviser Representative" after he or she has been duly licensed as an investment adviser representative by the appropriate state(s).

Only those employees of an investment adviser who give advice to individual investors will have to register as an investment adviser representative with a state. Such employees will not have to register with the state if they do not meet or otherwise communicate with clients or they give only impersonal investment advice.

The Chief Compliance Officer will follow the procedures set forth below to determine whether an employee of Coastal must register as an investment adviser representative with a state:

1. The Chief Compliance Officer will determine which employees of Coastal are "supervised persons."

A firm employee is a "supervised person" if he or she is a partner, officer, director or employee of Coastal who:

- Provides investment advice; and
- Is under the control and supervision of Coastal.

If an employee is not a "supervised person," he or she will not have to register.

2. The Chief Compliance Officer will determine which supervised persons are investment adviser representatives.

A firm employee who is a supervised person will be an "investment adviser representative" if he or she is a "supervised person" whose investment advice in the preceding 12 months was provided to more than 5 clients, more than 10% of whom were natural persons. In making this calculation, the Chief Compliance Officer may exclude:

- Those clients with \$750,000 under management at Coastal;
- Those clients with a net worth of at least \$1,500,000; and
- Those clients who are qualified purchasers (as defined in the Investment Company Act of 1940) because they own at least \$5,000,000 of investments.

#### **11.3.7.2 State Licensing**

[Investment Advisers Act of 1940 Section 203A]

The Investment Advisers Act, not state law, controls when an employee of an investment adviser must be licensed by a state through the definition of "investment adviser representative" contained in that Act.



The Chief Compliance Officer will review Section 203A of the Advisers Act and rules thereunder prior to deciding whether an employee who meets the definition of an "investment adviser representative" is required to be licensed in a particular state. Each investment adviser representative of Coastal potentially must be licensed in all states where he or she has a "place of business." A "place of business" is:

- an office at which the adviser representative regularly provides advisory services, solicits, meets with, or otherwise communicates with clients; and
- any other location that is held out to the general public as a location at which the adviser representative provides advisory services, solicits, meets with, or otherwise communicates with clients.

An adviser representative is considered to "hold himself out to the general public as having a location at which he or she conducts advisory business" by publishing information in a professional directory or a communication that identifies the location as one at which the adviser representative is or will be available to meet or communicate with clients.

*Notice:* Some states require third party solicitors of Coastal (*i.e.*, individuals who solicit advisory clients for Coastal but who are not employed by Coastal or subject to Coastal's control) to be licensed as an "investment adviser representative" if they are in the state or if they solicit clients in the state even if they do not have a place of business there and even if the clients are all entities or wealthy individuals.

When the Chief Compliance Officer determines that an employee meets the SEC's definition of "investment adviser representative" as defined above because the employee has a place of business in a particular state or multiple states, the Chief Compliance Officer will check that state's laws to determine whether an exemption from that state's licensing requirement is available and, if not, will direct such employee to comply with that state's procedures to obtain an investment adviser representative license from that state.

### **11.3.7.3 Adviser Representative Registration Procedures**

The Chief Compliance Officer is responsible for filing all necessary registration and licensing materials with federal and state regulatory agencies in connection with the registration of each Adviser Representative and will maintain an up-to-date Investment Adviser Representative List showing the status of each registration. When registering a Coastal Adviser Representative, the Chief Compliance Officer will take the following steps:

1. Prior to the submission of an application for registration or licensing of any person with any regulatory authority, the Chief Compliance Officer will arrange for a background check on the applicant to determine his or her reputation, qualification and experience;
2. The Chief Compliance Officer will not file the U-4 registration form for an employee until the Chief Compliance Officer determines whether the applicable state requires the employee to pass an examination (e.g., Series 65 (Uniform Investment Adviser) Exam, Series 66 (Uniform Combined State Law) or Series 7 (General Securities Representative) Exam), waives the examination if the employee has earned certain particular designations (e.g., CFP, CFC, PFS, CFA or CIC), or waives the examination requirement because of experience or education;
3. The Chief Compliance Officer will verify that the employee has passed any required examinations or has the required designation;
4. Once the Chief Compliance Officer is satisfied that the employee is required to register with a state as an investment adviser representative, and can qualify for such registration, the Chief Compliance Officer will review the registration requirements of the applicable state(s) (including whether the state is part of the IARD system) and make the necessary filings;
5. Typically, a state requires the investment adviser representative filing package to be filed electronically or in hard copy and to contain: (1) a completed Form U-4; (2) electronic payment or a check or money order for the fee; and (3) proof that the applicant has passed a required investment adviser exam;
6. The Chief Compliance Officer will inform the Adviser Representative applicant that he or she may not provide investment advice to any client until he or she has received notice from the Chief Compliance Officer that he or she has been granted an investment adviser representative license from the appropriate state(s) (unless such license is not necessary); and

7. The Chief Compliance Officer will arrange for Coastal to make annual or more frequent payments, as required, to each such state to maintain the registration of each of its Adviser Representatives.

#### **11.3.7.4 Adviser Representative Registration Amendments**

The Chief Compliance Officer and each licensed Adviser Representative have a continuing obligation to promptly update a Form U-4 or any other form on file with a regulatory agency. This may necessitate the filing of amendments to such forms. Each Adviser Representative must notify Coastal of any changes that require an amendment to Form U-4, including for example, a change of home address, a married name (versus a maiden name), and any disciplinary matter.

##### **11.3.7.4.1 Registration Database**

Coastal shall maintain a database of all licensing and registration information for Adviser Representatives. The Chief Compliance Officer or designee shall monitor the data base to ensure that Adviser Representative licenses are kept current.

##### **11.3.7.4.2 Adviser Representative Registration Responsibilities**

Each Adviser Representative must notify the Chief Compliance Officer in a timely manner of a change in:

- job responsibilities that may effect his or her licensing status or requirements; and
- home address, a married name (versus a maiden name), any disciplinary matter, or other events that may require an amendment to his or her Form U-4.

##### **11.3.7.4.3 Chief Compliance Officer Registration Responsibilities**

The Chief Compliance Officer or designee shall arrange for the filing of the appropriate amendments to Form U-4 and any other registration documents in response to change of status of Adviser Representatives.

##### **11.3.7.5 Adviser Representative Registration Renewals**

Since investment adviser representative licenses typically expire at the end of some period (e.g., December 31st), the Chief Compliance Officer will take steps to renew each investment adviser representative license each year. Most states require the renewal license to be filed shortly before the expiration date (e.g., October or November if the expiration period is December 31st). Renewal filings typically must be accompanied by a fee or a fee will be deducted electronically. The Chief Compliance Officer will check each applicable state's renewal procedures, including whether the state is part of the IARD system.

##### **11.3.7.6 Adviser Representative Registration Withdrawals**

The human resources department or similar area of Coastal shall notify the Chief Compliance Officer of all Home Office employee terminations. The Person in Charge of any branch office or similarly situated Advisor of Coastal shall notify the Chief Compliance Officer if an employee, advisor, or officer is no longer providing advisory services.

#### 11.3.7.6.1 Form U-5s

The Chief Compliance Officer will cause Coastal to file a Form U-5 on the IARD system in connection with an Adviser Representative registration upon notification that such Adviser Representative:

- no longer meets the definition of "investment adviser representative;" or
- terminated his or her employment with Coastal.

The Form U-5 will be filed no later than 30 days after the employee's change of status or termination.

#### 11.3.7.6.2 Registration Eligibility

It is the policy of Coastal that once an employee or officer is no longer eligible for registration as an Adviser Representative, Coastal is prohibited from maintaining such registration, even if such employee desires to maintain registration status to avoid taking future examinations.

#### 11.3.7.7 Other Employee Registrations or Licenses

If an employee desires to sell variable annuities or engage in brokerage activities, he or she must register with FINRA and in each state in which he or she conducts such business. The types of activities and securities products offered by Coastal's Affiliate will dictate the registration required. Those that potentially are applicable to Coastal are:

- **Series 3 - National Commodity Futures Exam.** This exam is required of individuals who recommend, accept, enter or execute orders in commodity futures products.
- **Series 4 - Registered Options Principal.** This registration is required of the firm employees who are responsible for the overall supervision of Coastal's option activities.
- **Series 6 - Investment Company Limited Representative.** This registration allows Coastal employees to offer mutual funds (open-end investment companies, closed-end investment companies and unit investment trusts).
- **Series 7 - General Securities Representative.** This registration allows Coastal employees to offer all securities products, including mutual funds, common stock, notes, hedge fund interests, private equity and venture capital limited partnership interests.
- **Series 22 - Dual Participation Program Limited Representative.** This registration allows Coastal employees to offer interest in venture capital, hedge fund and private equity limited partnerships.
- **Series 24 - General Representative.** This registration is required of Coastal employees who are responsible for the management or supervision of Coastal's brokerage business, including supervising registered representatives. Coastal would also have to register as a broker-dealer with the SEC and become a member of FINRA and possibly certain exchanges.
- **Series 27 - Financial and Operational Principal.** This registration is required of Coastal employees who are responsible for the accuracy and final approval of individuals who are involved in the administration and maintenance of Coastal's brokerage back office operations.
- **Series 53 - Municipal Securities Principal Exam.** This exam and registration allows Coastal employees to be directly engaged in the management and supervision of the underwriting, trading and sales of municipal securities.
- **Series 55 - Equity Trader Exam.** This exam and registration allows Coastal employees to trade OTC equity and convertible debt securities on a principal or agency basis.
- **Series 63 - Uniform Securities Agent State Law.** A state may require a representative of a broker-dealer to register in that state.
- **Series 65 - Investment Advisers Law Exam.** Most states require an individual who provides investment advice or solicits advisory services to register with that state as an Adviser Representative and take the Series 65 Investment Advisers Exam. This exam is administered by FINRA and tests the

applicant's knowledge of the Investment Advisers Act of 1940 and the Uniform Securities Act (Blue Sky laws).

- **Series 66 - Uniform Combined State Exam.** This exam is a combination of the Series 63 and 65.

### 11.3.8 Status Under Other Laws and Regulations

The CCO shall monitor Coastal's status under laws and regulations other than the Advisers Act to determine whether Coastal's activities and services provided to clients may cause it to be subject to registration under other laws and regulations. In particular, the Chief Compliance Officer shall periodically determine whether Coastal must register as a:

- Broker-Dealer;
- Commodity Pool Operator; or
- Commodity Trading Adviser.

#### 11.3.8.1 Broker-Dealer Status

Unless Coastal is registered with the SEC as a broker, Coastal, to avoid meeting the definition of "broker," shall not engage in the following activities:

- Receive compensation (*e.g.*, commission) for executing of securities trades;
- Hold itself out as a broker or offering brokerage services;
- Effect securities trades;
- Solicit customers for brokerage services; and
- Participate in the order-taking or order routing process (for example, by taking transaction orders from customers).

Whether Coastal or any of its employees would meet the definition of "broker" would depend upon the accumulation of these factors; *i.e.*, no one factor will be dispositive.

Coastal's affiliated broker-dealer has reasonable procedures in place to disclose to clients, when an investment advisor representative is also registered with Coastal Equities, Inc., that advisory services are provided by Coastal Investment Advisors, Inc., and that securities are offered by Coastal Equities, Inc. to avoid potential client confusion.

#### 11.3.8.2 CPO Status

The CCO will monitor the status of Coastal for purposes of determining whether Coastal's activities and services may subject it to registration under the Commodity Exchange Act and rules thereunder. In carrying out this function:

1. The CCO will determine whether Coastal manages any accounts that are entities such as hedge funds. If Coastal does not manage entity accounts, it will not meet the definition of "commodity pool operator."
2. If Coastal manages entity accounts, the CCO will determine which entity accounts, if any, meet the definition of "commodity pool." A commodity pool is a collective investment vehicle in which funds contributed by investors are combined and managed for the purpose of trading "commodity interests." The pooling of funds contributed by multiple investors distinguishes the commodity pool from a commodity managed account. If Coastal (or any employee at Coastal) operates a commodity pool or solicits funds for the commodity pool, it will meet the definition of commodity pool operator.
3. If Coastal meets the definition of a commodity pool operator, it will either register as such or rely upon an exemption to such registration, if available.

For purposes of whether Coastal meets the definition of "commodity pool," "commodity interests" include:

- futures contracts
- options on futures
- swaps.

Swaps include:

- credit default swaps
- contracts for differences
- non-deliverable forward contracts involving foreign exchange
- currency options
- currency swaps
- total return swaps.

On November 18, 2012, the U.S. Department of Treasury issued a final determination that foreign exchange forwards and foreign exchange swaps are exempt from the definition of swaps under the Commodity Exchange Act. Accordingly, an adviser meeting the definition of commodity pool operator does not need to include these instruments when determining whether it can rely upon the 4.13(a)(3) exemption to not register as such with the CFTC and NFA.

Security-based swaps are regulated by the SEC and are not deemed to be "commodity interests."

If Coastal has an entity client that meets the definition of "commodity pool," Coastal can:

- act as the CPO and not register as a CTA;
- act as the CPO and set up a separate entity to manage the commodity pool, which would be a CTA; or
- act as the CPO and retain an unaffiliated entity to manage the commodity pool, which would be a CTA.

#### **11.3.8.2.1 CPO Exemptions**

If Coastal meets the definition of CPO, the CCO will consider whether Coastal may rely upon exemptions from registration.

#### **Rule 4.13(a)(3) Exemption**

To rely upon the Rule 4.13(a)(3) exemption, Coastal must meet three sets of conditions: (i) trading restrictions; (ii) marketing restrictions; and (iii) investor eligibility requirements.

The CFTC in 2012 rescinded Rule 4.13(a)(4), which was the exemption from CPO registration that many advisers relied upon when engaging in trading in commodity interests. An adviser may not rely upon Rule 4.13(a)(4) after December 31, 2012.

#### **1. Trading Restrictions**

The commodity interests trading is limited to one of two quantitative standards:

- the aggregate initial margin and premiums required to establish commodity interest positions, determined at the time the most recent position was established, will not exceed 5% of the liquidation value of the commodity pool's portfolio (taking in account unrealized gains and losses) ("Margin Test");  
**or**
- the aggregate net notional value of the commodity pool's commodity interest positions do not exceed 100% of the commodity pool's liquidation value ("Net Notional Test").

## 2. Marketing Restrictions

Interests in the commodity pool must be offered and sold in a manner that makes them exempt from registration under the 1933 Act, including the requirement that they not be marketed to the public in the U.S.

The JOBS Act, when fully implemented, may provide flexibility on how advisers relying upon Rule 4.13(a)(3) may market fund interests.

## 3. Eligible Investors

Interests in the commodity pool may be offered only to sophisticated investors referred to in CFTC Rule 4.7 as qualified eligible persons (QEPs), accredited investors, or knowledgeable employees.

### **Rule 4.13(a)(3) Exemption for Fund-of-Funds**

If a fund or other entity (upper-tier fund) advised by Coastal invests in a fund or other entity (lower-tier fund) that meets the definition of commodity pool, the upper-tier entity itself may meet the definition of commodity pool, requiring Coastal to register as a CPO. Prior to investing assets of a fund or other entity advised by Coastal in lower-tier funds, Coastal will look through to the lower-tier funds and ascertain the commodity interest exposure of each of the lower-tier funds.

### **Rule 4.7 Exemption**

If Coastal is registered with the CFTC as a CPO, it will be exempt from certain requirements of the Commodity Exchange Act (*e.g.*, certain disclosure, recordkeeping, and reporting requirements) if Coastal meets the following requirements:

- each commodity pool consists of only "qualified eligible persons;" and
- Coastal sells commodity pool interests in a private offering not subject to registration under the Securities Act of 1933 and Coastal does not market the commodity pool as an investment vehicle to invest in commodity interests.

The CCO will confer with Section 4.7(a)(2) of the Commodity Exchange Act regarding the types of persons who are "qualified eligible persons" for purposes of the Section 4.7 exemption.

Coastal additionally will satisfy certain disclosure, notice and recordkeeping requirements.

### **Disclosure**

Coastal will include a specified legend on all offering documents or immediately above the signature line in a subscription agreement disclosing its reliance on the Section 4.7 exemption.

### **Notice**

Coastal will file the required notice of exemption with the NFA.

### **Reports**

Coastal will prepare required quarterly reports and Coastal will:

- distribute such reports to investors in each fund that is a commodity pool; and
- file the quarterly report with the NFA.

Coastal will prepare an annual report for each fund that is a commodity pool relying on Rule 4.7. In addition, Coastal will:

- file such report with the NFA electronically;
- distribute such report to investors in each Fund within 90 days after the end of the fund's fiscal year; and
- prepare such report in accordance with GAAP.

#### **Rule 4.12(b) Exemption**

If Coastal as a registered CPO elects to rely upon the Rule 4.12(b) exemption to be exempt from certain disclosure, reporting and recordkeeping requirements, the CCO will confirm that each commodity pool relying on such exemption:

- is offered and sold pursuant to the 1933 Act or an exemption thereunder;
- generally and routinely trades in securities and securities-derived instruments;
- commits no more than 10% of its fair market value as initial margin or premiums for commodity interest trading (and certain Forex minimum security deposits, if applicable, are made); and
- trades only in commodity interests in a manner solely incidental to its securities trading activities.

#### **Notice**

Prior to relying upon Rule 4.12(b), Coastal will file a notice of exemption with the NFA.

#### **Reports**

If Coastal is relying on the Rule 4.12(b) exemption, it will prepare the quarterly reports required by that Rule and:

- distribute such reports to investors in each commodity pool within 30 days after the end of the reporting period; and
- such reports will indicate the NAV of the commodity pool as of the end of the reporting period and the change in NAV from the end of the previous reporting period.

In addition, Coastal will prepare an annual report for each commodity pool relying on Rule 4.12(b) and:

- file such report with the NFA electronically;
- distribute such report to investors in each commodity pool within 90 days after the end of the commodity pool's fiscal year; and
- prepare such report in accordance with GAAP.

#### **Non-U.S. Adviser Exemptions**

If Coastal is a foreign adviser, the CCO will consider whether it may rely upon one or more of certain exemptions available to non-U.S. advisers.

If Coastal is a non-U.S. adviser, it should consider the availability of CFTC Interpretative Letter 76-21, CFTC Rule 30.4 (non-U.S. advisers who do not trade in U.S. markets with limited participation by U.S. investors) and CFTC Rule 30.5 (non-U.S. advisers who do not trade in U.S. markets).

#### **11.3.8.2.2 CPO Registration**

Coastal will file for registration as a CPO by using the NFA Online Registration System (ORS). ORS may be accessed at <http://www.nfa.futures.org>.

In order to register with the NFA, a firm must take the following steps:

- Complete the online version of Form 7-R, the Firm Application;
- Submit a non-refundable application fee of \$200; and
- Pay NFA-mandated CPO membership dues of \$750.

As a registered CPO, Coastal would be required to be a member of the NFA.

#### **11.3.8.2.3 CPO Principal Registration**

If Coastal is registered as a CPO, the CCO shall determine whether firm personnel and any entities related to Coastal must be registered as principals. The following persons and entities may have to register as principals:

- Persons with certain titles:
  - LLC: director, president, CEO, COO, CFO, CCO, a person in charge of a business unit or division subject to regulation by the CFTC, manager, managing member or member with management authority.
- Corporation: director, president, CEO, COO, CFO, CCO, a person in charge of a business unit or division subject to regulation by the CFTC.
- Partnership: general partner.
- Sole Proprietorship: sole proprietor.
- Persons with certain ownership interests:
  - Persons who own 10% or more of the outstanding shares of any class of the stock of the CPO;
  - Persons who are entitled to vote 10% or more of any class of the voting securities of the CPO;
  - Persons who have the power to sell or direct the sale of 10% or more of any class of the voting securities of the CPO;
  - Persons who have contributed 10% or more of the capital of the CPO;
  - Persons who are entitled to receive 10% or more of the net profits of the CPO
- Entities with certain control:
  - Entities that are the general partner of a CPO formed as a partnership;
  - Entities that own 10% or more of any class of securities of the CPO;
  - Entities that have directly contributed 10% or more of the capital of the CPO.

If Coastal is a registered CPO, at least one employee of Coastal must be a Principal who is registered as an Associated Person.

#### **CPO Associated Person Registration**

If Coastal is registered as a CPO, the following persons must be registered as an associated person unless an exemption is available:

- each individual at Coastal who solicits orders, customers or customer funds on behalf of Coastal in its capacity as a CPO; and
- each individual who is in the supervising chain-of-command who supervises such persons.

As required by CFTC rules, the CCO shall treat both immediate supervisors and everyone in line of the supervisory authority as being in the chain of command. This potentially includes the CEO, President or other most senior person at Coastal.

#### **Exemptions from Associated Person Definition**



Prior to registering an employee of Coastal as an associated person of a CPO, the CCO will determine whether any exemptions from that status are available. These exemptions include:

- Rule 3.12(h)(1)(ii): a person engaged only in the solicitation of interests in a commodity pool as a FINRA registered representative who does not engage in any other activity subject to CFTC regulation.
- Rule 3.12(h)(1)(iii): a COO, general partner or other person in the supervisory chain-of-command of an entity that makes no more than 10% of its annual revenue from commodity interest related activity, provided that the person engages in no solicitation activities and delegates its supervisory authority to another registered Associated Person.
- Rule 3.12(h)(1)(iv): a person whose activities are limited to soliciting: (i) non-U.S. investors, (ii) for non-U.S. funds from (iii) outside the U.S.

Only natural persons may be Associated Persons.

### **CPO Associated Person/Principal Registration Process**

To register an individual as a Principal or Associated Person of Coastal, the CCO will:

- confirm that the individual passed the Series 3 exam within the past two years unless the person is currently registered as an Associated Person of another CPO or the person has obtained a waiver from the CFTC or NFA;
- file a Form 8-R through the NFA's Online Registration System; and
- send a completed fingerprint card to the NFA for each Principal and Associated Person to be registered.

Outside individual directors of the CPO are not subject to the fingerprinting requirement. Certain waivers to the exam requirement may be available. See CFTC Rule 402.

#### **11.3.8.2.4 CPO Supervisory Procedures**

If Coastal elects to register as a CPO, Coastal will adopt written supervisory procedures tailored to a CPO that cover, among other things:

- Supervision
- Privacy
- Ethics training
- Disaster Recovery
- Marketing
- Business with non-members
- NFA audits
- CFTC/NFA filings
- Branch offices
- Disclosure documents
- Recordkeeping.

#### **11.3.8.3 CTA Status**

The CCO will monitor the status of Coastal for purposes of determining its status as a commodity trading adviser (CTA) under the Commodity Exchange Act and rules thereunder.

## Definition of CTA

In carrying out this function, the CCO will determine whether Coastal based upon its activities, including providing services to clients, meets the definition of CTA. Coastal will meet the definition of CTA if it for compensation or profit:

- engages in the business of advising others, either directly or through publications, writings or electronic media, as to the value of or the advisability of trading in commodity interests, including: any future, security futures product, or swap; authorized commodity option or leverage transaction; or retail forex or commodity transactions; or
- as part of a regular business, issues or promulgates analyses or reports concerning any of the foregoing.

For purposes of this determination, "commodity interests" include:

- futures contracts
- options on futures
- swaps.

Swaps include:

- credit default swaps
- contracts for differences
- non-deliverable forward contracts involving foreign exchange
- currency options
- currency swaps
- total return swaps.

On November 18, 2012, the U.S. Department of Treasury issued a final determination that foreign exchange forwards and foreign exchange swaps are exempt from the definition of swaps under the Commodity Exchange Act. Accordingly, an adviser meeting the definition of commodity pool operator does not need to include these instruments when determining whether it can rely upon the 4.13(a)(3) exemption to not register as such with the CFTC and NFA.

Security-based swaps are regulated by the SEC and are not deemed to be "commodity interests."

### 11.3.8.3.1 CTA Exemptions

If Coastal meets the definition of CTA, the CCO will determine whether Coastal may rely upon any exemptions from CTA registration.

#### Exemption from Definition of CTA

Coastal would be exempt from the definition of "commodity trading adviser" if the following commodity interest activities are solely incidental to its business as one of the following:

- any bank or trust company or any person acting as an employee thereof;
- any news reporter, news columnist, or news editor of the print or electronic media, or any lawyer, accountant, or teacher;
- any floor broker or futures broker;
- the publisher or producer of any print or electronic data of general and regular dissemination, including its employees;

- the named fiduciary, or trustee, of any defined benefit plan which is subject to ERISA or any fiduciary whose sole business is to advise that plan;
- any contract market or derivatives transaction execution facility; and
- such other persons not within the intent of this definition as the CFTC may specify by rule.

#### **Rule 4.7 Exemption**

To rely upon the Rule 4.7 exemption, which provides relief from certain provisions of the Commodity Exchange Act, Coastal must:

- be registered as a CTA with the CFTC;
- apply the exempted relief only to accounts of "qualified eligible persons;"
- obtain from each such qualified eligible person his or her consent that permits Coastal to rely upon Rule 4.7 with respect to that person's account;
- file a notice with the CFTC and that it is relying upon Rule 4.7;
- comply with certain recordkeeping rules; and
- include certain disclosure specified by Rule 4.7 in disclosure brochures provided to qualified eligible persons.

#### **11.3.8.3.2 CTA Registration**

If it elects to register as a CTA, Coastal prior to operating as a registered CTA will take the following steps:

##### **Initial Filing**

In order to register with the NFA, Coastal will take the following steps:

- Complete the online version of Form 7-R, the Firm Application;
- Submit a non-refundable application fee of \$200; and
- Pay NFA-mandated CTA membership dues of \$750.

Coastal will also apply for membership of the NFA.

#### **11.3.8.3.3 CTA Principal Registration**

If Coastal is registered as a CTA, the CCO shall determine whether firm personnel or any entities related to Coastal must be registered as principals. Persons and entities who may have to register as principals include:

- Persons with certain titles:
  - LLC: director, president, CEO, COO, CFO, CCO, a person in charge of a business unit or division subject to regulation by the CFTC, manager, managing member or member with management authority.
- Corporation: director, president, CEO, COO, CFO, CCO, a person in charge of a business unit or division subject to regulation by the CFTC.
- Partnership: general partner.
- Sole Proprietorship: sole proprietor.
- Persons with certain ownership interests:
  - Persons who own 10% or more of the outstanding shares of any class of the stock of the CTA;
  - Persons who are entitled to vote 10% or more of any class of the voting securities of the CTA;
  - Persons who have the power to sell or direct the sale of 10% or more of any class of the voting securities of the CTA;
  - Persons who have contributed 10% or more of the capital of the CTA;
  - Persons who are entitled to receive 10% or more of the net profits of the CTA
- Entities with certain control:

- Entities that are the general partner of a CTA formed as a partnership;
- Entities that own 10% or more of any class of securities of the CTA;
- Entities that have directly contributed 10% or more of the capital of the CTA.

If Coastal is a registered CTA, at least one employee of Coastal must be a Principal who is registered as an Associated Person.

### **CTA Associated Person Registration**

If Coastal is registered as a CTA, the following persons must be registered as an associated person unless an exemption is available:

- each individual at Coastal who solicits orders, customers or customer funds on behalf of Coastal in its capacity as a CTA; and
- each individual who is in the supervising chain-of-command who supervises such persons.

As required by CFTC rules, the CCO shall treat both immediate supervisors and everyone in line of the supervisory authority as being in the chain of command. This potentially includes the CEO, President or other most senior person at Coastal.

### **Exemptions from Associated Person Definition**

Prior to registering an employee of Coastal as an associated person of a CTA, the CCO will determine whether any exemptions from that status are available. These exemptions include:

- Rule 3.12(h)(1)(ii): a person engaged only in the solicitation of interests in a commodity pool as a FINRA registered representative who does not engage in any other activity subject to CFTC regulation.
- Rule 3.12(h)(1)(iii): a COO, general partner or other person in the supervisory chain-of-command of an entity that makes no more than 10% of its annual revenue from commodity interest related activity, provided that the person engages in no solicitation activities and delegates its supervisory authority to another registered Associated Person.
- Rule 3.12(h)(1)(iv): a person whose activities are limited to soliciting: (i) non-U.S. investors, (ii) for non-U.S. funds from (iii) outside the U.S.

Only natural persons may be Associated Persons.

### **CTA Associated Person/Principal Registration Process**

To register an individual as a Principal or Associated Person of Coastal, the CCO will:

- confirm that the individual passed the Series 3 exam within the past two years unless the person is currently registered as a Principal or an Associated Person of another CTA or the person has obtained a waiver from the CFTC or NFA;
- file a Form 8-R through the NFA's Online Registration System; and
- send a completed fingerprint card to the NFA for each Principal and Associated Person to be registered.

Outside individual directors of the CTA are not subject to the fingerprinting requirement. Certain waivers to the exam requirement may be available. See CFTC Rule 402.

#### 11.3.8.3.4 CTA Supervisory Procedures

If Coastal registers as a CTA, it will adopt supervisory procedures that cover, among other things:

- Supervision
- Privacy
- Ethics training
- Disaster Recovery
- Marketing
- Business with non-members
- NFA audits
- CFTC/NFA filings
- Branch offices
- Disclosure documents
- Recordkeeping.

#### 11.3.8.4 SIFI

Coastal will monitor Federal Reserve Board (FRB) rulemaking to determine whether it might be designated as a significantly important financial institution (SIFI). The FRB is responsible for issuing a number of rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act, sometimes in conjunction with other government agencies. On April 3, 2013, the FRB issued a final rule that establishes the requirements for determining when a company is "predominantly engaged in financial activities." The requirements will be used by the Financial Stability Oversight Council (FSOC) when it considers the potential designation of a nonbank financial company, which may include an investment adviser (such as Coastal) or a fund it advises (Nonbank). Designation of Coastal as a SIFI could require it to alter dramatically the way it conducts its business and manages its clients through the application of heightened regulatory standards promulgated by the FRB.

To determine which Nonbanks such as Coastal are to be subjected to heightened supervision, FSOC developed an analytical framework. This three-stage screening is as follows:

1. **Quantitative Screening:** Based on public and regulatory sources, FSOC will establish quantitative thresholds to determine who it will continue to screen. FSOC will use six categories in its evaluation of whether a particular Nonbank meets either determination standard.
2. **Qualitative and Quantitative Assessment:** Through voluntary requests, and public and regulatory sources, FSOC will conduct a qualitative and quantitative factor analysis of Nonbanks selected during Stage 1. Based on this analysis, FSOC will contact those Nonbanks that FSOC believes merit further evaluation in Stage 3.
3. **In-Depth Analysis:** With information from Stages 1 and 2, along with data obtained from the Nonbank under consideration, FSOC will perform additional in-depth analysis on whether the Nonbank should be designated a SIFI.

With respect to Stage 3, FSOC will examine factors that help predict the magnitude of the impact on the broader economy of the failure of a particular Nonbank and factors that indicate how likely that Nonbank is to fail (the vulnerability factors). These factors are as follows:

- Size
- Interconnectedness
- Substitutability
- Leverage
- Liquidity Risk and Maturity Mismatch
- Existing Regulatory Oversight

The potential impact factors are likely to be the primary drivers in any SIFI designation decision. For example, even if a Nonbank is very vulnerable to failure, it would not likely be designated as a SIFI if its failure would have an insignificant effect on the broader economy.

FSOC must consult with existing regulators before making a determination. But once a determination is made and the Nonbank is notified, it has 30 days to respond and request a review hearing. FSOC has a further 60 days to reach a final determination of SIFI status.

FSOC will, at least annually, reevaluate each determination and rescind such determination if the Nonbank no longer meets the SIFI standard. FSOC will provide written notice to the Nonbank's subject to a determination that its designation is being reviewed prior to reevaluation and will provide an opportunity for such companies to submit written materials to contest the determination within the time it decides appropriate (not less than 30 days after the date of receipt of notice). If FSOC rescinds the determination, FSOC will notify the Nonbank in writing and publicly announce its decision.

### **11.3.9 Large Traders**

[SEC Securities Exchange Act of 1934 Rule 13h-1]

In 2011, the SEC established a large trader reporting system designed to enhance the agency's ability to identify large market participants, collect information on their trading, and analyze their trading activity. Large traders who engage in a substantial level of trading activity are required to identify themselves to the SEC by electronically filing a Form 13H with the SEC. They can include investment advisers.

#### **11.3.9.1 Reporting Thresholds**

Coastal periodically will monitor its status to determine whether it meets the definition of "large trader" (as defined in Rule 13h-1 under the Securities Exchange Act of 1934). Coastal will be deemed a large trader if it directly or indirectly, including through other persons controlled by Coastal, exercises investment discretion over one or more accounts and effects "aggregate transactions" for the purchase or sale of any NMS security for or on behalf of such accounts, by or through one or more registered broker-dealers, in an aggregate amount equal to or greater than:

- During a calendar day, either 2 million shares or shares with a fair market value of \$20 million; or
- During a calendar month, either 20 million shares or shares with a fair market value of \$200 million.

An "NMS" security is any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options.

The Chief Compliance Officer, when determining the large trader reporter status of Coastal, will refer to Rule 13f-1(a)(6) under the Securities Exchange Act of 1934 to check whether certain transactions are excluded from the threshold calculations set forth above.

Coastal may also voluntarily register with the SEC as a large trader.

If Coastal meets the reporting threshold, it shall file for a Large Trader identification number (LTID) from the SEC.

#### **11.3.9.2 Parent Company and Aggregation**

The ultimate parent company of Coastal shall have the filing obligation for purposes of Form 13H, which shall file on behalf of itself and all other entities that it controls. Control means the direct or indirect power to direct, or

cause the direction of, the management and policies of a person. An entity that owns 25% or more of another entity is presumed to control such entity.

For purposes of determining whether Coastal is a large trader, the aggregate trading activity of all controlled entities shall be collected and added together in accordance with the following:

- The volume or fair market value of transactions in equity securities and the volume or fair market value of the equity securities underlying transactions in options on equity securities, purchased and sold, shall be aggregated; and
- The fair market value of transactions in options on a group or index of equity securities (or based on the value thereof), purchased and sold, shall be aggregated.

Coastal may not subtract, offset, or net purchase and sale transactions, in equity securities or option contracts, and among or within accounts, when aggregating the volume or fair market value of transactions.

### **11.3.9.3 Form 13H Filing**

If Coastal meets the definition of "large trader," it will electronically file Form 13H with the SEC:

- **Initial:** promptly after first effecting aggregate transactions equal to or greater than the identifying activity level;
- **Annual:** within 45 days after the end of each full calendar year; and
- **Amendment:** promptly following the end of a calendar quarter in the event that any of the information contained in a Form 13H filing becomes inaccurate for any reason.

### **11.3.9.4 Broker-Dealer Disclosure**

If Coastal is a large trader, it will disclose to the registered broker-dealers, effecting transactions on its behalf, its large trader identification number and each account to which it applies.

### **11.3.9.5 Inactive Status**

If Coastal is currently reporting as a large trader but has not effected aggregate transactions at any time during the previous full calendar year in an amount equal to or greater than the "identifying activity level," it will file an amended Form 13H and deem itself inactive on that form.

## **11.3.10 Hedge Fund Adviser Filings**

In 2011, the SEC adopted a rule requiring certain advisers to hedge funds and other private funds to report information for use by the Financial Stability Oversight Council (FSOC) in monitoring risks to the U.S. financial system. The rule requires SEC-registered investment advisers with at least \$150 million in private fund assets under management to periodically file a new reporting form (Form PF). Private fund advisers are divided by size into two broad groups - large advisers and smaller advisers. The amount of information reported and the frequency of reporting depends on the group to which the adviser belongs.

### **11.3.10.1 Form PF Filer**

The CCO will monitor whether Coastal is a Form PF filer. Coastal is required to file Form PF if:

- It is registered or required to register with the SEC as an investment adviser or it is registered or required to register with the CFTC as a CPO or CTA and it is also registered or required to register with the SEC as an investment adviser;
- Coastal manages one or more private funds; and
- Coastal and related persons, collectively, had at least \$150 million in private fund assets under management as of the last day of Coastal's most recently completed fiscal year.

### 11.3.10.2 Filer Type

Periodically, the CCO will determine what type of Form PF Filer Coastal is:

1. **Large Hedge Fund Adviser:** The Firm and its Related Persons collectively had at least \$1.5 billion in hedge fund assets under management as of the last day of any month in the fiscal quarter immediately preceding Coastal's most recently completed fiscal quarter. Coastal is not required to include the regulatory assets under management of any Related Person that is separately operated.
2. **Large Liquidity Fund Adviser:** The Firm advises one or more Liquidity Funds and as of the last day of any month in the fiscal quarter immediately preceding its most recently completed fiscal quarter, Coastal and its Related Persons, collectively, had at least \$1 billion in combined money market and Liquidity Fund assets under management. Coastal is not required to include the regulatory assets under management of any Related Person that is separately operated.
3. **Large Private Equity Adviser:** The Firm and its Related Persons, collectively, had at least \$2 billion in Private Equity Fund assets under management as of the last day of its most recently completed fiscal year. Coastal is not required to include the regulatory assets under management of any Related Person that is separately operated.

### 11.3.10.3 Private Fund Identifier

Coastal will obtain an identification number for each Private Fund for purposes of reporting on Form ADV and Form PF. Private fund identification numbers can only be obtained by filing Form ADV.

### 11.3.10.4 Form PF Definitions

**Liquidity Fund:** any private fund that seeks to generate income by investing in a portfolio of short term obligations in order to maintain a stable net asset value per unit or minimize principal volatility for investors.

**Private Equity Fund:** any private fund that is not a hedge fund, liquidity fund, real estate fund, securitized asset fund or venture capital fund and does not provide investors with redemption rights in the ordinary course.

**Private Fund:** any issuer that would be an investment company as defined in section 3 of the Investment Company Act of 1940 but for section 3(c)(1) or 3(c)(7) of that Act.

**Related Persons:** the persons Coastal lists as such in its Form ADV.

### 11.3.10.5 Form PF Sections

Coastal shall complete the applicable sections of Form PH:

- Section 1 - All Form PF filers
- Section 2 - Only Large Hedge Fund Advisers
- Section 3 - Large liquidity fund advisers



- Section 4 - Large private equity advisers

### **11.3.10.6 Filing Requirements**

Coastal will file Form PF electronically through the Form PF filing system on the Investment Adviser Registration Depository website ([www.iard.com](http://www.iard.com)). Questions regarding filing through the Form PF filing system will be addressed to the Financial Industry Regulatory Authority (FINRA) at 240-386-4848.

### **11.3.10.7 Filing Fees**

When filing Form PF, Coastal will pay the applicable filing fee. The Form PF filing fee schedule is available at <http://www.sec.gov/iard> and <http://www.iard.com>.

### **11.3.10.8 Timing of Filings**

#### **1. Large Hedge Fund Adviser**

If Coastal is a Large Hedge Fund Adviser, it will file a quarterly update within 60 calendar days after the end of its first, second and third fiscal quarters, that updates the answers to all Items in this Form PF relating to the hedge funds that it advises.

Within 60 calendar days after the end of Coastal's fourth fiscal quarter, it will file a quarterly update that updates the answers to all Items in this Form PF.

Coastal may, however, submit an initial filing for the fourth quarter that updates information relating only to the hedge funds that it advises so long as it amends its Form PF within 120 calendar days after the end of the quarter to update information relating to any other hedge funds that it advises. When it files such an amendment, it is not required to update information previously filed for such quarter.

#### **2. Large Liquidity Fund Adviser**

If Coastal is a Large Liquidity Fund Adviser, it will file a quarterly update within 15 calendar days after the end of its first, second and third fiscal quarters, that updates the answers to all Items in this Form PF relating to the liquidity funds that Coastal advises.

Within 15 calendar days after the end of its fourth fiscal quarter, it will file a quarterly update that updates the answers to all Items in this Form PF. It may, however, submit an initial filing for the fourth quarter that updates information relating only to the liquidity funds that it advises so long as it amends its Form PF within 120 calendar days after the end of the quarter to update information relating to any other liquidity funds that it advises. When Coastal files such an amendment, it is not required to update information previously filed for such quarter.

If Coastal is both a large liquidity fund adviser and a large hedge fund adviser, it will file quarterly updates with respect to the liquidity funds that it advises within 15 calendar days and with respect to the hedge funds it advises within 60 calendar days.

#### **3. All Other Advisers**

If Coastal is an adviser other than a Large Hedge Fund Adviser or Large Liquidity Fund Adviser, it will file a quarterly update within 120 calendar days after the end of its fiscal year that updates the answers to all Items in the Form PF.

If Coastal is a large hedge fund adviser and a large liquidity fund adviser, it is not required to file annual updates but instead file quarterly updates for the fourth quarter.

The Chief Compliance Officer will refer to Form PF and its instructions if it is making a transition filing or final filing.

### **11.3.10.9 Form PF Guidance**

When a compliance officer of Coastal has questions regarding particular Form PF filings, he or she will refer to the Form PF Frequently Asked Questions ("Form PF FAQ"). Compliance personnel will also monitor updates made by the SEC to the Form PF FAQ. The Form PF FAQ is found on the SEC's web site at <http://www.sec.gov/divisions/investment/pfrd/pfrdfaq.shtml>.

### **11.3.11 Schedule 13F Filings**

[SEC Securities Exchange Act of 1934 Section 13(f)]

The reporting system required by Section 13(f) of the Securities Exchange Act of 1934 created in the SEC a central repository of historical or current data about institutional investment managers. Pursuant to Section 13(f), the SEC requires certain investment advisers to file a Schedule 13F with the SEC that contains information about the securities that the firm purchases and holds on behalf of clients.

In advance of the end of each calendar quarter, the Chief Compliance Officer shall review the amount of assets Coastal has under management. If Coastal has \$100 million or more of assets under management in discretionary accounts that consist of exchange-traded or NASDAQ quoted securities on the last trading day of any month during the relevant three-month period, the Chief Compliance Officer will file a Schedule 13F with the SEC via the EDGAR system within 45 days of the end of the quarter.

The Chief Compliance Officer will make sure the Schedule 13F accurately reports:

- The name of each issuer of each 13(f) security held;
- Description of the class of each 13(f) security held;
- Number of shares of each 13(f) security held; and
- Fair market value of each 13(f) security.

When it is in the best interest of its clients, Coastal will consider seeking confidential treatment of a given Schedule 13F filing. Reasons for seeking confidential treatment may be that the 13F filing will contain confidential financial information or reveal Coastal's ongoing program of acquisition or disposition of a reportable security to the detriment of the applicable clients.

When making a request to the SEC for confidential treatment, Coastal, at a minimum, shall provide:

- details about the specific investment program being followed with respect to a reportable security and its ultimate objective;
- an explanation of how the public would be able to discern Coastal's strategy with respect to the reportable security from the data reported on Form 13F;
- information demonstrating that the program is ongoing, so that public disclosure would be premature;
- a demonstration of the likelihood of substantial harm to Coastal's competitive position in the reportable security if the request is not granted; and
- the period of time for which confidential treatment is requested.

### **11.3.12 Schedule 13D and 13G Filings**

### **11.3.12.1 Monitoring**

Periodically, the Chief Compliance Officer shall review the investment portfolio of each client account that Coastal exercises discretionary authority over to ascertain whether Coastal beneficially owns 5% of more of the shares of a publicly traded company. When making the 5% calculation, Coastal shall include all positions it holds, all positions of accounts over which it exercises discretionary authority, and all accounts of "control persons." "Control persons" are direct or indirect controlling partners or shareholders of Coastal and the client, and the direct or indirect parent company of Coastal and the client.

### **11.3.12.2 5% or Greater Threshold**

If the Chief Compliance Officer suspects that a position may be approaching 5% of the outstanding securities of a publicly traded company, the Chief Compliance Officer shall immediately consult third party information sources or the issuer's transfer agent to verify the exact ownership position. The Chief Compliance Officer shall consult with the inside or outside counsel of Coastal to verify such ownership, and request such counsel to review the concept of "beneficial ownership" under applicable rules and SEC interpretative positions. As soon as the 5% threshold is crossed:

- the Chief Compliance Officer shall prepare a Schedule 13D or 13G, depending on which Schedule is appropriate;
- the inside or outside counsel for Coastal shall review all draft 13D and 13G filings prior to their filing with the SEC; and
- within 10 days of beneficially owning 5% or more of an issuer's equity securities, Coastal will file a Schedule 13D or Schedule 13G with the SEC (via EDGAR) and the issuer.

### **11.3.12.3 Schedule 13D vs. Schedule 13G**

Coastal will file a long-form Schedule 13D unless Coastal can meet certain requirements to be eligible to file the short-form Schedule 13G. Coastal will use a Schedule 13D unless it meets the following conditions:

1. It is registered with the SEC (or a broker, bank, insurance company, investment company, employee benefit plan, parent holding company, S&L, church plan or a group of such persons);
2. It acquired the securities in the ordinary course of its business and not with the purpose of trying to influence the control of the issuer of the securities; and
3. It promptly notifies any discretionary account owner, on whose behalf it holds more than 5% of the securities, regarding any transaction that might cause the accountholder to have a reporting obligation.

### **11.3.12.4 Joint Filings**

Control persons have separate reporting obligations. However, the Chief Compliance Officer may arrange for Coastal and the control person to make a joint Schedule 13G filing under the following conditions:

1. Coastal itself is eligible to file the Schedule 13G;
2. No control person intends to influence the control of the issuer of the securities;
3. Each control person files a separate Schedule 13G cover sheet, signs the Schedule 13G in his or her capacity, and attaches a joint filing agreement; and
4. In the case of a parent holding company, the parent holding company and control persons own 1% or less of the issuer's outstanding securities.

If a client of Coastal by itself owns 5% or more of an issuer's securities, it has a separate reporting obligation. The client must find out if it is eligible to file a Schedule 13G. If the client can make a Schedule 13G filing, the Chief Compliance Officer ordinarily will advise the client to make a filing separate from Coastal's filing.

### **11.3.12.5 Amendments**

In the case of a Schedule 13G filing, Coastal must file an amended Schedule 13G with the SEC within 45 days of the end of the calendar year if there have been any changes to the information in the prior Schedule 13G.

In the case of a Schedule 13D filing, Coastal must file an amended Schedule 13D promptly (e.g., within 1-2 business days) if there are any material changes to the disclosures set forth in the Schedule 13D, including, without limitation, any acquisition or disposition of securities in an amount equal to one percent or more of the class of outstanding securities. Any acquisitions of securities that may require a Schedule 13D filing should be brought to the attention of the Chief Compliance Officer immediately.

### **11.3.13 Form 3, 4, and 5 Filings**

[SEC Securities Exchange Act of 1934 Section 16]

From time to time, Coastal may have a client or an employee who is an "insider" for purposes of Section 16 of the Securities Exchange Act of 1934. An insider, generally, is a direct or indirect beneficial owner of more than 10 percent of any class of an equity security that is registered with the SEC, or an executive officer, director or other employee involved in the policy making of a publicly traded company. In addition, Coastal's clients in the aggregate may own 10 percent or more of a class of equity securities, potentially causing Coastal to have insider status. Insider status necessitates a filing under Section 16 of the Securities Exchange Act of 1934.

#### **11.3.13.1 Monitoring**

[SEC Securities Exchange Act of 1934 Section 16]

Periodically, the Chief Compliance Officer shall review the status of clients and officers of Coastal to ascertain whether any such person is an "insider" for purposes of Section 16 of the Securities Exchange Act of 1934. One method of monitoring will be reviewing the employment status of the client on Coastal's client information form and periodically asking employees to report outside activities. In addition, Coastal will monitor whether its clients in the aggregate own 10 percent of any class of equity security that is registered with the SEC.

#### **11.3.13.2 Client Insider Status**

Coastal will advise any client or employee who gains insider status to file with the SEC (via EDGAR):

- a Form 3 within 10 days after gaining such status;
- a Form 4 will be filed when the insider changes his or her position in the applicable security through a purchase, sale, exercise of an option, or other transaction; and
- a Form 5, the annual filing form, will be filed by the insider within 90 days of the company's fiscal year-end.

#### **11.3.13.3 Adviser Insider Status**

[SEC Securities Exchange Act of 1934 Section 16]

If the clients of Coastal in the aggregate own 10 percent of any class of equity security that is registered with the SEC, Coastal will determine whether it has "insider status" for purposes of Section 16. Coastal will not have insider status if it does not have voting and/or investment power over the shares held in these client accounts. If Coastal does have voting and/or investment power over these shares, it will not have insider status if the shares are held:

- in client accounts in the ordinary course of business; and
- without the purpose or effect of changing or influencing control of the issuer.

If any one client account owns over 10 percent of the issuer, the account may be subject to Section 16 if the client has or shares beneficial ownership with Coastal.

#### **11.3.13.4 Short Swing Profit Rule**

The Chief Compliance Officer shall inform clients or employees who are insiders of their obligation to comply with the SEC's "Short Swing Profit Rule," which limits their ability to buy and sell their company's securities in a short period of time.

#### **11.3.14 Execution of Signatures on Filings**

When executing a filing with a government agency, the Chief Compliance Officer shall make sure the following procedures are taken:

- Anyone executing a filing on behalf of Coastal will use his or her full legal name;
- The Chief Compliance Officer will check the government form to see if it requires the execution to be notarized, and if so, arrange for the form to be notarized prior to filing the document; and
- The Chief Compliance Officer will ensure that the document is executed in the proper manner depending on the type of person or entity that is filing the form:
  - Corporation or Limited Liability Company: signed in the company's name by an authorized officer, principal or member of the company;
  - Partnership: signed in the partnership's name by the general partner; or
  - Individual: signed in the individual's name.

#### **11.3.15 Form SHC Filings**

Form SHC is the form filed by financial institutions with the Federal Reserve Bank of New York to survey ownership of foreign securities. Form SHC is filed once every five years. The last filing was required for certain advisers in 2011. The next filing will be due in 2017 with respect to the 2016 tax year. The Federal Reserve Bank of New York can request a more frequent filing. The Form is intended to provide data to the U.S. government relating to ownership of foreign securities by U.S. residents to assist in the computation of the U.S. balance of payments accounts and the U.S. investment position, among other things.

##### **11.3.15.1 Filing Requirement**

The CCO or designee shall determine who is required to file a Form SHC.

Two types of persons potentially are required to file Form SHC:

- Custodians: organizations that hold securities in safekeeping for other organizations; and

- End-Investors: any entity that is a resident in the U.S. that either invests for its own account or on behalf of others, including managed accounts and asset pools, such as hedge funds.

The CCO will file Form SHC if the reporting thresholds set forth herein are met or exceeded, unless an exemption is available.

### 11.3.15.2 Appropriate Schedules

Form SHC is comprised of three schedules. Once the CCO determines that Coastal is required to file a Form SHC for each Reporting Entity, he or she next will determine which schedule(s) to file for such entity.

#### Schedules

Schedule 1	Coastal will file Schedule 1 if it has received a letter from the Federal Reserve Bank of New York requiring it to make a Form SHC filing. This schedule requires reporter-identifying information and summaries of financial information provided in the other two schedules. If Coastal must file Schedule 1 because it received notice from the Federal Reserve Bank of New York to do so, but does not have holdings of reportable foreign securities owned by U.S.-resident end-investors with a fair value of at least \$100 million, it does not have to file Schedule 2 or Schedule 3.
Schedule 2	Coastal will file Schedule 2 if the total value of foreign securities is \$100 million or more and: <ul style="list-style-type: none"> <li>• Coastal safe-keeps for itself or for its U.S.-resident clients; or</li> <li>• Coastal holds directly with foreign-resident custodians or U.S.-resident or foreign-resident central securities depositories (e.g., The Depository Trust Company) to manage the safekeeping of those securities</li> </ul>
Schedule 3	Coastal will file Schedule 3 to report summary amounts of reportable foreign securities held at each of its U.S.-resident custodians. If, however, the reporting entity holds foreign securities with a fair value of less than \$100 million at a given U.S.-resident custodian, it does not have to file Schedule 3 with respect to that custodian.

Holdings of reportable foreign securities that constitute "direct investments" are excluded from the calculation of the \$100 million filing threshold. U.S. direct investment abroad is the ownership or control, directly or indirectly, by a U.S. resident of at least 10% of a foreign business enterprise.

Schedules are filed with:

Federal Reserve Bank of New York  
Statistics Function, 4<sup>th</sup> Floor  
33 Liberty Street  
New York, New York 10045-0001

### 11.3.15.3 Reportable Foreign Securities

"Reportable foreign securities" are U.S.-resident holdings of foreign portfolio securities, such as:

- foreign equities;
- short-term debt securities, including selected money market instruments; and
- long-term debt securities (debt securities with a maturity of at least one year), including asset-backed securities.

"Foreign securities" are all securities issued by entities that are established under the laws of a foreign country (*i.e.*, any entity that is legally incorporated, otherwise legally organized or licensed (such as branches) in a foreign country) and all securities issued by international or regional organizations, such as the International Bank for Reconstruction and Development, even if these organizations are physically located in the United States.

Excluded from reporting on Form SHC are, among other things:

- derivatives contracts;
- loans and loan participation certificates;
- letters of credit;
- non-negotiable certificates of deposit;
- foreign securities temporarily acquired under reverse repurchase, borrowing, or lending arrangements;
- direct investments; and
- venture capital funds and private equity funds.

The CCO will file Form SHC if the reporting thresholds set forth herein are met or exceeded, unless an exemption is available.

### **11.3.16 Exempt Reporting Advisers**

Exempt reporting advisers, as their name suggests, are exempt from having to register with the SEC as investment advisers and thus are not subject to the regulation under the Advisers Act to the same extent as registered investment advisers. Exempt reporting advisers include U.S. advisers that manage private funds with assets that are less than \$150 million and non-U.S. advisers that manage private funds that have no U.S. person clients (except for the private funds) and the assets managed by the adviser attributable to private funds managed in the U.S. are less than \$150 million. An adviser that manages separately managed accounts in addition to hedge fund accounts may not register with the SEC as an exempt reporting adviser.

#### **11.3.16.1 Exempt Reporting Adviser Filing Requirement**

If Coastal is an exempt reporting adviser, Coastal will file Part 1A of Form ADV with the SEC. In such filing, Coastal shall only complete the items and related schedules of Part 1A that exempt reporting advisers are required to complete. They include:

- Item 1 - Identifying Information.
- Item 2.B. - Qualification as an Exempt Reporting Adviser.
- Item 3 - Form of Organization.
- Item 6 - Other Business Activities.
- Item 7 - Financial Industry Affiliations and Private Fund Reporting.
- Item 10 - Control Persons.
- Item 11 - Disciplinary Disclosure Information.

In responding to Item 7, Coastal must provide detailed information about each private fund that it advises, such as organizational, operational and investment characteristics (including gross asset value), non-identifying information about beneficial owners, and the name and certain other information about the general partners, directors and service providers.

Coastal is not required to complete and file Form ADV Part 2A with the SEC and complete Form ADV Part 2B.

#### **11.3.16.2 Monitoring Exempt Reporting Advisers**

If Coastal is an exempt reporting adviser, the Chief Compliance Officer from time to time shall monitor SEC rule proposals and releases and other developments to ensure that Coastal continues to comply with existing and new SEC requirements imposed on exempt reporting advisers.

### **11.3.16.3 Registration Filings**

If Coastal files as an exempt reporting adviser, it will meet the new registration and ongoing updating requirements applicable to such filers.

#### **Initial Filing**

Within 60 days of first relying on the private fund adviser exemption, Coastal will file its initial Form ADV with the SEC and respond only to the items applicable to an exempt reporting adviser. It will make such filing via the IARD. Once the filing is accepted by the IARD system, it will be deemed automatically accepted. The filing will also be publicly available.

#### **Amended Filings**

Coastal will amend its exempt reporting adviser filing on Form ADV within 90 days of its fiscal year end. In between annual amendment filings, Coastal will amend its Form ADV to update information as required by the instructions of Form ADV, including changes to identification information and disciplinary actions.

#### **States**

Coastal periodically will evaluate whether it must register as an adviser or make notice filings with any state when it has elected to file with the SEC as an exempt reporting adviser.

### **11.3.16.4 Exempt Reporting Adviser Eligibility**

If Coastal currently relies upon the private fund adviser exemption to file as an exempt reporting adviser, it will assess its eligibility each year within 90 days of its fiscal year end. At such time, Coastal will calculate its assets under management in accordance with the Form ADV instructions and verify whether it has any separately managed accounts.

- If Coastal will have to report in its annual updating amendment that it has \$150 million or more of private fund assets under management, it will no longer qualify to rely upon the private fund adviser exemption. In such case, it will file its annual updating amendment and file for full SEC registration within 90 days of the annual update filing.
- If Coastal will lose its eligibility to file as an exempt reporting adviser because it will begin to manage a separately managed account, it will register with the SEC as a regular investment adviser ( *i.e.*, it will complete the full Form ADV) prior to becoming a manager to that separately managed account. The above-described 90-day transition period does not apply.
- If Coastal remains eligible to file as an exempt reporting adviser, it will file its annual amendment within 90 days of its fiscal year end.

### **11.3.17 U.S. Department of Commerce BE-10 Filing Requirements**

If Coastal had a "foreign affiliate" during its 2014 fiscal year, it will file a Form BE-10 with the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce. "Foreign affiliate" is defined to mean:

any "business enterprise" located outside of the U.S. in which the Firm directly or indirectly owned or controlled 10% or more of the voting stock or equivalent equity of such foreign enterprise. A "business enterprise" means any organization, association, branch or venture that exists for profit-



making purposes or to otherwise secure economic advantage, and any ownership of any real estate.

If Coastal has a foreign affiliate, it will be deemed to be a "U.S. reporter" and must file a Form BE-10A, as well as a Form BE-10B, BE-10C or BE-10D, as applicable, for each of its foreign affiliates. It will file the appropriate forms with the BEA by electronically transmitting the forms via the BEA website, at <http://www.bea.gov/efile>.

The Form BE-10 is part of a 5-year benchmark survey designed by the BEA to gather current economic data on the foreign investment operations of U.S. parent companies and their foreign affiliates.

In determining whether a hedge fund advised by Coastal must make a Form BE-10 filing, the Chief Compliance Officer shall consider the following guidance and if necessary consult outside counsel:

<http://www.bea.gov/surveys/pdf/be10/faqprivatefunds.pdf>

## 11.4 Books and Records

Coastal will maintain in the "Registration/Filings" section of its books and records:

- copies of each Firm Brochure, Brochure Supplement and Summary of Material Changes that it currently uses or has used in the past and note on the Firm Brochure and Brochure Supplement the date when such Firm Brochure and Brochure Supplement were first and last used. Through this procedure, Coastal will create a record of when each version of its disclosure document was actually used in making disclosure to clients. Coastal will also maintain a copy of its Brochure (Part 2A) and each Brochure Supplement (Part 2B) given or sent to any client or prospective client who becomes a client;
- a record of the dates that each Brochure and Brochure Supplement, each amendment or revision thereto, and each Summary of Material Changes not contained in a Brochure was given to any client or to any prospective client who subsequently becomes a client;
- all registration records for each Adviser Representative, including copies of Forms U-4 and U-5;
- copies of all Schedule 13Ds, 13Fs and 13Gs filed with the SEC and copies of EDGAR confirmation showing that the filing was successfully made; and
- copies of all Form 3, 4 and 5 filings made with the SEC on behalf of its clients.

# 12 BUSINESS

## Introduction

Most investment advisers are legal business entities owned by individuals that provide the advisory services and carry on the other operations of the firm. Like any business, an investment adviser must have a system that allow its managers to efficiently make financial record entries, generate reports based on those entries, and maintain records of the entries and reports. The two primary financial statements are a balance sheet, which shows the solvency of the investment adviser, and an income statement, which shows the profits or losses of the investment adviser.

A number of parties may request to see financial statements, including regulators, landlords, lenders, and institutional clients. Accurate and current records are also necessary to comply with various laws and rules, including paying federal, state and local taxes.

Regulators expect that an investment adviser will assess what its back-up and contingency needs are in the event of a disaster and institute procedures to meet those needs by executing a well thought out contingency plan. At a minimum, investment advisers should address data back-up and recovery, all mission critical systems, and alternative communications between the investment adviser and its clients and service providers. Clients rely on investment advisers to maintain operations and communication channels, even in the wake of natural and other disasters.

Professionals organizing an entity should understand that a legal entity is not a perfect shield against personal liability. Under common law, a court may ignore the legal entity and hold its shareholders personally liable for the obligations of a company that is not operated as an entity separate and apart from the shareholders' personal affairs.

## 12.1 Compliance Reference Chart

[Applicable state statutes governing the Firm's form of organization]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Legal</li><li>• Operations</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Each day Coastal is open for business it must make financial entries to account for its business operations</li><li>• Disaster recovery procedures should be periodically tested</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Applicable state statutes governing Coastal's form of organization</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• Organizing documents</li><li>• Various financial statements</li></ul>
<b>Audit</b>	<ul style="list-style-type: none"><li>• Coastal audits its Business Compliance Procedures annually.</li></ul>

## 12.2 Policy

It is Coastal's policy to account for its business operations and to generate and maintain financial statements that accurately portray Coastal's financial condition on a current basis and to have a plan that is designed to ensure the continuity of its critical business functions and to minimize inconvenience and disruption of services to clients during disasters.

## 12.3 Procedures

### 12.3.1 Business Accounting and Financial Condition

#### 12.3.1.1 Accounting Method and Principals

- The firm will account for its business by using the accrual accounting method.
- Coastal, when accounting for its business operation, will follow generally accepted accounting principals.

#### 12.3.1.2 Accounting System

Coastal shall maintain hardware, software and other equipment necessary to adequately account for its business operations and generate and record its accounting records. The Chief Compliance Officer shall arrange for employees to be trained to properly use the accounting system. The system shall be able to produce desired records on a real-time basis.

#### 12.3.1.3 Financial Records and Statements

Coastal will maintain the necessary ledgers or other records, including:

- journals reflecting all assets and liabilities, income and expenses and capital accounts;
- journals showing cash receipts, disbursements and other records of original entry;
- trial balances that indicate the financial condition of Coastal; and
- internal audit working papers.

Coastal shall keep its financial records true, accurate and current. The SEC defines "current" to mean at least quarterly. See *American Asset Management, SEC No-Action Letter (pub. avail. Aug. 24, 1987)* and *Harold N. Chadwick, SEC No-Action Letter (pub. avail. Oct. 26, 1987)*. At the end of each fiscal year, Coastal will examine its financial books and records and based upon that examination will prepare financial statements for the fiscal year.

#### 12.3.1.4 Financial Condition of the Firm

[Investment Advisers Act of 1940 Rule 206(4)-4]

Periodically, the Chief Compliance Officer will review Coastal's financial condition to ensure that it is able to meet current obligations. For example, the Chief Compliance Officer will compare the total current assets of

Coastal with Coastal's total current liabilities. If this ratio falls below an acceptable level, the Chief Compliance Officer will notify the senior financial officer of Coastal, who shall take steps to improve Coastal's financial condition.

Current assets include such items as:

- cash;
- cash items;
- marketable securities; and
- receivables from clients (assuming such receivables can be collected in a reasonable amount of time).

Current liabilities include:

- accrued salaries and taxes;
- current portions due on long-term debt; and
- other obligations that necessitate a cash payment within one year.

Coastal will also monitor its net capital position and will comply with any state net capital requirements if applicable.

As required by Rule 206(4)-4 under the Investment Advisers Act of 1940, Coastal will immediately amend its Form ADV to disclose any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients.

### **12.3.2 Taxes**

Coastal shall obtain and maintain a Federal Employer Identification Tax Number. Coastal will comply with all applicable federal, state and tax laws, will make all required state and employee tax filings, and comply with all rules governing payroll obligations, withdrawals and W-2 statements.

### **12.3.3 Disaster Recovery Plan**

Coastal recognizes its operational dependency on computer systems, networks, database services, Internet, e-mail, telephone and fax services, electrical power and other essential items and the potential loss of revenue and operational control that may occur in the event of a disaster. Coastal has authorized the preparation, implementation and maintenance of this comprehensive Disaster Recovery Plan. The intent of this Plan is to provide a written and tested plan directing officers and employees to take certain actions in the event of an interruption in continuous services resulting from an unplanned or unexpected disaster.

This Disaster Recovery Plan is designed to recover from the "worst case" destruction of Coastal's operating environment. The "worst case" destruction assumes the loss of the total facility, supporting infrastructures (e.g., power grids, telephone switching centers, microwave towers, and cell and wireless transmission sites near the location of Coastal), and the incapacity of key personnel.

These procedures describe Coastal's overall approach to disaster preparation and recovery. They are designed to minimize loss and ensure the continuity of the critical business functions of Coastal in the event of a disaster. The Firm relies upon its affiliate's (Coastal Equities, Inc.) Business Continuity Plan because the affiliates share the same personnel and service providers. The Firm has determined that this reliance is reasonable.

### **12.3.4 Insurance**

The Investment Advisers Act of 1940 does not impose insurance requirements on investment advisers. If Coastal is a state-registered investment adviser, it will comply with all applicable state insurance requirements. Irrespective of legal requirements, Coastal will consider obtaining the appropriate type and level of business insurance, including errors and omissions insurance, if such insurance can be underwritten at reasonable rates.

### **12.3.5 Bonds**

The Investment Advisers Act of 1940 does not impose bonding requirements on investment advisers. If Coastal is a state-registered investment adviser, it will comply with all applicable state bonding requirements.

Whenever Coastal exercises investment discretion over retirement plan assets, it will obtain a fiduciary bond if required by ERISA.

### **12.3.6 Business Formalities**

#### **12.3.6.1 Limited Liability Status**

The Chief Compliance Officer shall take, or cause others to take, the following steps to minimize the possibility of a court reaching the personal assets of owners of Coastal or its officers and employees to satisfy obligations of the business entity:

- Ensure that Coastal is adequately capitalized in accordance with the procedures discussed above;
- Open checking and other financial accounts in the name of Coastal;
- Hold meetings of Coastal on a regular basis;
- When taking actions for Coastal, follow procedures set forth in Coastal's bylaws or other organizational documents;
- Ensure that authorized officers of Coastal sign contracts as officers on behalf of Coastal;
- Consider obtaining liability insurance for Coastal; and
- Ensure officers and employees of Coastal keep their personal affairs separate from the business affairs of Coastal.

The Chief Compliance Officer will cause Coastal employees and officers to diligently perform these and other administrative functions required to operate the advisory business in an effort to shield such persons' personal assets from the creditors of the advisory business.

#### **12.3.6.2 Corporate Governance**

If Coastal is organized as a legal entity pursuant to state law, it will comply with all state and local laws and ordinances that apply to such entity. Coastal shall also comply with all organization and governance documents.

### **12.3.7 Political Contributions**

#### **12.3.7.1 Political Contributions Policy**

Coastal generally does not make political contributions. Exceptions to this policy are noted below.

### 12.3.7.2 Firm Contributions

Coastal may only make a political contribution if:

- The contribution is approved by Coastal's Chief Executive Officer or designee;
- The contribution is permitted by applicable law, as determined by Coastal's counsel or outside counsel;
- The following information about the contribution is obtained, recorded and maintained: (1) name of candidate/political party; (2) office/position for which candidate is running; (3) state/jurisdiction; (4) party affiliation; (5) date of election; (6) type of election (primary, general or special); (7) description of why Coastal should support candidate/political party; (8) information about whether Coastal has done business with the state or local agency the candidate is trying to join (e.g., served as adviser to a municipal bond offering); and (9) name and signature of person submitting this information; and
- The contribution does not present a conflict of interest or is detrimental to Coastal's advisory clients.

### 12.3.7.3 Individual Contributions

Coastal employees may contribute to candidates for federal, state and local elective offices to the extent permitted by law. Because such contribution may cause a conflict of interest with Coastal's business, an employee making a political contribution should contact the Chief Compliance Officer prior to making a contribution that the employee believes may potentially raise such a conflict.

### 12.3.8 Offices

Coastal, if it has multiple offices, will designate one of its offices as its principal office and place of business. It shall maintain a list of its offices that contains the following information about each office:

- Name of the office
- Address of the office
- Phone number of the office
- Supervisor of the office
- Employees who work in the office
- Whether investment advisory business is conducted in the office
- Whether a registered representative of a broker-dealer conducts business out of such office
- Nature and type of any non-advisory business conducted at such office

### 12.3.9 Transition Plan

It is the policy of Coastal to have in place a transition plan that facilitates a smooth transition of ownership of Coastal and avoids a disruption of the advisory services it provides to clients.

1. **Notice** . Coastal shall provide notice to clients:
  - within five business days from the death, incapacity, termination, retirement or resignation of a key employee; and
  - within 30 business days from the decision to close or sell Coastal.
2. **Transition Team** . The following Firm employees are designated members of the transition team who are responsible for implementing these procedures and taking all other actions to effect a smooth transition:

- Chief Compliance Officer
  - Chief Executive Officer
3. **Monitoring of Client Accounts** . Each client's account will be monitored on a daily basis until an orderly liquidation, distribution or transfer of the client's portfolio to another adviser can be achieved.
  4. **Successor Adviser Candidates** . Coastal shall identify and maintain a list of potential advisers that can act as a short-term substitute or long-term successor. During this process, Coastal will verify registrations in relevant states, professional certifications, educational background, disciplinary history and work experience.
  5. **Employment Agreements** . Coastal's employment agreements with key personnel, if possible, will contain provisions:
    - protecting Coastal's proprietary interests in client relationships;
    - requiring at least 60 days' notification of resignation; and
    - training by such key personnel of other Firm personnel who can substitute for them after they depart.
  6. **Custodian and Other Key Service Providers** . Coastal maintains a list of the specific documents or processes that must be completed for client accounts serviced by the third-party service provider to allow the substitute advisor to transact business.
  7. **Illiquid Assets** . In the event of a likely succession or incapacitation of Coastal, Coastal will review client accounts for illiquid assets and form a plan on how they may be orderly liquidated, distributed or transferred to another adviser can be achieved.
  8. **Portfolio Transition** . Coastal will cooperate with the successor adviser or transition manager in terms of restructuring client portfolios so that they may be transitioned to the successor adviser in a manner consistent with the investment strategy employed by such successor.
  9. **Key Personnel**. Key Personnel are those officers or directors of the Firm deemed to be critical to the function of the Firm in the judgment of the Chief Compliance Officer at the time of one of the events described above in section 1.

## 12.4 Form ADV Disclosure

Coastal will accurately describe its form of business in its Brochure (Part 2A).

## 12.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(1), 204-2(a)(2), 204-2(a)(4), 204-2(a)(5) and 204-2(a)(6)]

Coastal will maintain, in its Business books and records:

- A journal or journals, including cash receipts and disbursements records, and any other records of original entry forming the basis of entries in a ledger (Rule 204-2(a)(1));
- General and auxiliary ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts (Rule 204-2(a)(2));
- Check books, bank statements, cancelled checks and cash reconciliations of Coastal (Rule 204-2(a)(4));
- Bills or statements (or copies thereof), paid or unpaid, relating to Coastal's business (Rule 204-2(a)(5));
- Trial balances, financial statements and internal audit working papers relating to Coastal's business (Rule 204-2(a)(6));
- documents related to the planning for disasters; and
- all documents necessary to support the conclusion that Coastal is acting as a business, separate and apart from the affairs of its employees.

# 13 BOOKS AND RECORDS

## Introduction

[Investment Advisers Act of 1940 Rule 204-2; State law corporate governance recordkeeping provisions]

Rule 204-2 under the Investment Advisers Act of 1940 requires investment advisers to make and keep true, accurate and current records that reflect the advisers' business. Depending on the nature of the adviser's operations, it may be subject to numerous other federal, state and local rules, each of which may have distinct recordkeeping requirements. At a minimum, an investment adviser should have in place a record management system that addresses: (1) the types and form of records to retain, (2) retention periods, and (3) records destruction.

## 13.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Rule 204-2; State law corporate governance recordkeeping provisions]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Investment Management</li><li>• Legal</li><li>• Operations</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• On a given business day, Coastal typically generates a number of business records that must be maintained</li><li>• Recordkeeping procedures should be periodically tested</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Rule 204-2 under the Investment Advisers Act of 1940</li><li>• State law corporate governance recordkeeping provisions</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• Documents demonstrating compliance with these recordkeeping procedures</li></ul>
<b>Audit</b>	<ul style="list-style-type: none"><li>• Coastal audits its Books and Records Procedures annually.</li></ul>

## 13.2 Policy

It is Coastal's policy to create all books and records that are required by law and that all books and records shall be current, accurate and complete.

## 13.3 Procedures

### 13.3.1 Required Records



[Investment Advisers Act of 1940 Rule 204-2]

Each chapter in this Compliance Manual lists records that should be maintained by Coastal to comply with SEC rules or as a best practice. The Chief Compliance Officer shall take steps to cause such records to be created and maintained. In addition, the Chief Compliance Officer shall make best efforts to distinguish, mark or segregate those records specifically required to be maintained by Rule 204-2 under the Investment Advisers Act of 1940 ("Rule 204-2 Required Records") from other records retained by Coastal pursuant to the requirements of this Compliance Manual, so that Coastal may produce the Rule 204-2 Required Records expediently if so requested by an SEC or other government examiner.

### **13.3.1.1 Rule 204-2 Required Records**

[Investment Advisers Act of 1940 Rule 204-2]

The Chief Compliance Officer shall ensure that the following Rule 204-2 Required Records are maintained. The rule requiring each such record is in (parenthesis). Also, the Rule 204-2 Required Records for each chapter in the Compliance Manual are set forth at the end of each chapter.

#### **13.3.1.1.1 General Rule 204-2 Required Records**

[Investment Advisers Act of 1940 Rule 204-2(a)(1), 204-2(a)(2), 204-2(a)(3), 204-2(a)(4), 204-2(a)(5), 204-2(a)(6), 204-2(a)(7), 204-2(a)(8), 204-2(a)(9), 204-2(a)(10), 204-2(a)(11), 204-2(a)(13), 204-2(a)(14), 204-2(a)(15), 204-2(a)(16), 204-3, 204A-1, 204A-1(a)(5), 204A-1(b) and 204A-1(c)]

Coastal shall make and keep true, accurate and current the following general books and records relating to its investment advisory business:

1. A journal or journals, including cash receipts and disbursements records, and any other records of original entry forming the basis of entries in a ledger (Rule 204-2(a)(1));
2. General and auxiliary ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts (Rule 204-2(a)(2));
3. A memorandum of each order (also called a "trade ticket") given by Coastal for the purchase or sale of any security, of any instruction received by Coastal by the client concerning the purchase, sale, receipt or delivery of a particular security, and of any modification or cancellation of any such order or instruction (see Trades chapter of this Compliance Manual) for what must be set forth in the memorandum and other trade-related records required by the procedures in the Trades chapter (Rule 204-2(a)(3));
4. Check books, bank statements, cancelled checks and cash reconciliations of Coastal (Rule 204-2(a)(4));
5. Bills or statements (or copies thereof), paid or unpaid, relating to Coastal's business (Rule 204-2(a)(5));
6. Trial balances, financial statements and internal audit working papers relating to Coastal's business (Rule 204-2(a)(6));
7. Originals of the following written communications received and copies of all written communications sent by Coastal relating to:
  - Investment recommendations made or proposed to be made, and any advice given or proposed to be given;
  - Receipt, disbursement or delivery of funds or securities;
  - The performance or rate of return of any or all managed accounts or securities recommendations (the SEC has proposed but not adopted this requirement); and
  - Placement or execution of securities orders (Rule 204-2(a)(7));
8. A list or other record of all accounts in which Coastal is vested with any discretionary power with respect to the funds, securities or transactions of any client (Rule 204-2(a)(8));

9. All powers of attorney and other evidences of the granting of any discretionary authority by any client to Coastal, or copies thereof (Rule 204-2(a)(9));

10. All written agreements (or copies thereof) entered into by Coastal with any client or otherwise relating to the business of Coastal (Rule 204-2(a)(10));

11. A copy of each notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication that Coastal circulates or distributes, directly or indirectly, to 10 or more persons (other than persons connected with Coastal), and if such notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication recommends the purchase or sale of a specific security and does not state the reasons for such recommendation, a memorandum of Coastal indicating the reasons therefore (Rule 204-2(a)(11));

12.

- A copy of Coastal's code of ethics adopted and implemented pursuant to Rule 204A-1 that is in effect or at any time within the past five years was in effect;
- A record of any violation of the code of ethics and of any action taken as a result of the violation; and
- A record of all written acknowledgments as required by Rule 204A-1(a)(5) for each person who is currently, or within the past five years was, a supervised person of Coastal;

13.

- A record of each report made by an access person as required by Rule 204A-1(b), including any information provided under paragraph (b)(3)(iii) of that rule in lieu of such reports;
- A record of the names of persons who are currently, or within the past five years were, access persons of the investment adviser;
- A record of any decision, and the reasons supporting the decision, to approve the acquisition of securities by access persons under Rule 204A-1(c) for at least five years after the end of the fiscal year in which the approval is granted; and

Coastal should note that it shall not be deemed to have violated the provisions of this section or paragraph (a)(13) of Rule 204-2 under the Investment Advisers Act of 1940 because of its failure to record securities transactions of any advisory representative if it establishes that it instituted adequate procedures and used reasonable diligence to obtain promptly reports of all transactions required to be recorded.

14. A copy of each Firm Brochure and each amendment or revision thereof, given or sent to any client or prospective client of Coastal in accordance with the provisions of Rule 204-3 under the Investment Advisers Act of 1940, and a record of the dates that each Firm Brochure, and each amendment or revision thereof, was given or offered to be given, to any client or prospective client who subsequently becomes a client (Rule 204-2(a)(14));

15. All written acknowledgements of receipt obtained from clients pursuant to Rule 206(4)-3 (the cash solicitation rule) and copies of the disclosure documents delivered to clients by solicitors pursuant to Rule 206(4)-3 (Rule 204-2(a)(15));

16. All accounts, books, internal working papers, and any other records or documents that are necessary to form the basis for or demonstrate the calculation of the performance or rate of return of any or all managed accounts or securities recommendations in any notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication that the investment adviser circulates or distributes, directly or indirectly, to any person [the SEC currently applies the rule only to the circulation or distribution of 10 or more persons but has proposed to change the requirement to any circulation or distribution] (other than persons connected with such investment adviser); provided, however, that, with respect to the performance of managed accounts, the retention of all account statements, if they reflect all debits, credits, and other transactions in a client's account for the period of the statement, and all worksheets necessary to demonstrate the calculation of the performance

or rate of return of all managed accounts shall be deemed to satisfy the requirements of this paragraph. (Rule 204-2(a)(16)); and

17.

- A copy of Coastal's policies and procedures formulated pursuant to Rule 206(4)-7(a) under the Investment Advisers Act of 1940 that are in effect, or at any time within the past five years were in effect; and
- Any records documenting the investment adviser's annual review of those policies and procedures conducted pursuant to Rule 206(4)-7(b) under the Investment Advisers Act of 1940.

18.

- Books and records that pertain to Rule 206(4)-5 containing a list or other record of:
  - The names, titles and business and residence addresses of all covered associates of Coastal;
  - All government entities to which Coastal provides or has provided investment advisory services, or which are or were investors in any covered investment pool to which Coastal provides or has provided investment advisory services, as applicable, in the past five years, but not prior to September 13, 2010;
  - All direct or indirect contributions made by Coastal or any of its covered associates to an official of a government entity, or direct or indirect payments to a political party of a State or political subdivision thereof, or to a political action committee; and
  - The name and business address of each regulated person to whom Coastal provides or agrees to provide, directly or indirectly, payment to solicit a government entity for investment advisory services on its behalf, in accordance with Rule 206(4)-5(a)(2).
- Records relating to the contributions and payments referred to paragraph (a)(18)(i)(C) of Rule 204-2 (this section 18) must be listed in chronological order and indicate:
  - The name and title of each contributor;
  - The name and title (including any city/county/State or other political subdivision) of each recipient of a contribution or payment;
  - The amount and date of each contribution or payment; and
  - Whether any such contribution was the subject of the exception for certain returned contributions pursuant to Rule 206(4)-5(b)(2).
- Coastal is only required to make and keep current the records referred to in paragraphs (a)(18)(i)(A) and (C) of Rule 204-2 if it provides investment advisory services to a government entity or a government entity is an investor in any covered investment pool to which Coastal provides investment advisory services.
- For purposes of this section, the terms "contribution," "covered associate," "covered investment pool," "government entity," "official," "payment," "regulated person," and "solicit" have the same meanings as set forth in Rule 206(4)-5.

In lieu of complying with paragraph 18, Coastal (with respect to registered investment company clients only) may rely on Investment Company Institute (pub. avail. Sept. 12, 2011), a no-action letter, provided it maintains a list or other record that:

- Each government entity that invests in a covered investment pool whose account can reasonably be identified as being held in the name of or for the benefit of the government entity on the records of the covered investment pool or its transfer agent;
- Each government entity whose account was identified as that of a government entity - at or around the time of the initial investment - to Coastal or one of its client servicing employees, regulated persons or covered associates;
- Each government entity that sponsors or establishes a 529 Plan and has selected a specific covered investment pool as an option to be offered by such 529 Plan; and
- Each government entity that has been solicited to invest in a covered investment pool either (i) by a covered associate or regulated person of the adviser; or (ii) by an intermediary or affiliate of the

covered investment pool if a covered associate, regulated person, or client servicing employee of the adviser participated in or was involved in such solicitation, regardless of whether such government entity invested in the covered investment pool.

### **13.3.1.1.2 Custody-Related Rule 204-2 Required Records**

[Investment Advisers Act of 1940 Rule 204-2(a)(17)(iii), 204-2(b)(1), 204-2(b)(2), 204-2(b)(3), 204-2(b)(4) and 204-2(b)(5)]

Coastal does not custody securities or funds of any client. If Coastal ever has custody or possession of securities or funds of any client, Coastal shall make and keep true, accurate and current the following custody books and records relating to its investment advisory business:

1. A journal or other record showing all purchases, sales, receipts and deliveries of securities (including certificate numbers) for such accounts and all other debits and credits to such accounts. (Rule 204-2(b)(1));
2. A separate ledger account for each such client showing all purchases, sales, receipts and deliveries of securities, the date and price of each purchase and sale, and all debits and credits (Rule 204-2(b)(2));
3. Copies of confirmations of all transactions effected by or for the account of any such client (Rule 204-2(b)(3)); and
4. A record for each security in which any such client has a position, which record shall show the name of each such client having any interest in such security, the amount or interest of each such client, and the location of each such security (Rule 204-2(b)(4)).
5. A copy of any internal control report obtained or received pursuant to the requirements of Rule 206(4)-2 under the Advisers Act (the custody rule) (Rule 204-2(a)(17)(iii)); and
6. A memorandum describing the basis upon which Coastal had determined that the presumption that any related person is not operationally independent for purposes of Rule 206(4)-2 (the custody rule) has been overcome (Rule 204-2(b)(5)).

### **13.3.1.1.3 Investment Supervisory-Related Rule 204-2 Required Records**

[Investment Advisers Act of 1940 Rule 204-2(c)(1)(i), 204-2(c)(1)(ii) and 204-2(c)(2)]

If Coastal renders any investment supervisory or management service to any client, it shall, with respect to the portfolio being supervised or managed and to the extent that the information is reasonably available to or obtainable by Coastal, make and keep true, accurate and current:

1. Records showing separately for each such client the securities purchased and sold, and the date, amount and price of each such purchase and sale (Rule 204-2(c)(1)(i)); and
2. For each security in which any such client has a current position, information from which Coastal can promptly furnish the name of each such client, and the current amount or interest of such client. (Rule 204-2(c)(1)(ii)).

If Coastal exercises voting authority with respect to client securities, Coastal shall, with respect to those clients, make and retain the following:

1. Copies of all policies and procedures required by Rule 206(4)-6 (proxy voting rule);
2. A copy of each proxy statement that Coastal receives regarding client securities. Coastal may satisfy this requirement by relying on a third party to make and retain, on Coastal's behalf, a copy of a proxy statement (provided that Coastal 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 SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system;
3. A record of each vote cast by Coastal on behalf of a client. Coastal may satisfy this requirement by relying on a third party to make and retain, on Coastal's behalf, a record of the vote cast (provided that Coastal has obtained an undertaking from the third party to provide a copy of the record promptly upon request);

4. A copy of any document created by Coastal that was material to making a decision how to vote proxies on behalf of a client or that memorializes the basis for that decision; and
5. A copy of each written client request for information on how Coastal voted proxies on behalf of the client, and a copy of any written response by Coastal to any (written or oral) client request for information on how Coastal voted proxies on behalf of the requesting client (Rule 204-2(c)(2)).

### 13.3.1.2 Other Records

The Chief Compliance Officer shall cause Coastal to create and maintain any other records in addition to the Rule 204-2 Required Records required by this Compliance Manual and other applicable law and regulations.

### 13.3.2 Record Retention

[Investment Advisers Act of 1940 Rule 204-2(a)(1), 204-2(a)(2), 204-2(a)(3), 204-2(a)(4), 204-2(a)(5), 204-2(a)(6), 204-2(a)(7), 204-2(a)(8), 204-2(a)(9), 204-2(a)(10), 204-2(a)(17), 204-2(b), 204-2(c)(1)(i) and 204-2(c)(2)]

The Chief Compliance Officer shall cause Coastal to be in compliance with the record retention rules under the Investment Advisers Act of 1940 with respect to the Required Rule 204-2 Records discussed above by:

- Requiring the following records to be maintained and preserved in an easily accessible place for a period of not less than 5 years from the end of the fiscal year during which the last entry was made on such record, the first 2 years at Coastal's principal office:
  - Records required by Rule 204-2(a)(1) through Rule 204-2(a)(10) and Rule 204-2(a)(17)
  - Records required by Rule 204-2(b)
  - Records Required by Rule 204-2(c)(1)(i)
  - Records Required by Rule 204-2(c)(2)
- Requiring the following records to be maintained and preserved until at least 3 years after termination of Coastal's principal office:
  - Partnership articles and any amendments thereto
  - Articles of incorporation
  - Charters
  - Minute books
  - Stock certificate books
- Requiring the following records to be maintained and preserved in an easily accessible place for a period of not less than 5 years, the first 2 years in an appropriate office of Coastal from the end of the fiscal year during which Coastal last published or otherwise disseminated, directly or indirectly, the notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication:
  - Records required by Rule 204-2(a)(11) through Rule 204-2(a)(17)

### 13.3.3 Method of Recordkeeping

[Investment Advisers Act of 1940 Rule 204-2]

The Chief Compliance Officer shall oversee the maintenance and preservation of Coastal's books and records. The Chief Compliance Officer may maintain any Required Rule 204-2 Records and any other records of Coastal in:

- Hard copy;
- Micrographic media, including microfilm, microfiche, or any similar medium; or
- Electronic storage media, including any digital storage medium or system.

The records must be preserved in a non-rewriteable, non-erasable format (e.g., WORM).

### **13.3.4 Manner of Recordkeeping**

Coastal relies upon the electronic storage capabilities of its broker-dealer(s) where practicable to maintain required books and records. Coastal retains the services of Smarsh, an electronic communications archiving and review vendor for communication archival services. Coastal also relies upon paper records for certain account and internal documents. In such case, the same records are scanned and maintained electronically for convenience at the home office on its local network storage. Some records (such as client notes and correspondence) will be maintained in the branch, but must be readily-available to the Home Office or assigned supervisor upon demand for review.

#### **13.3.4.1 Electronic Storage of Records**

If Coastal stores records exclusively on an electronic system, it shall maintain such records in a manner that:

- Reasonably safeguards the records from loss, alteration or destruction;
- Limits the access to the records to properly authorized personnel and the SEC and other applicable regulators; and
- Permits reproduction of a non-electronic original record on electronic storage media in a complete, true and legible way when retrieved.

#### **13.3.4.2 Client Records**

Coastal has access to systems for each client, and is able to sort all records to produce the records of each client, that produces the following items, at a minimum, for each client:

- Correspondence;
- Trade confirmations;
- Account statements;
- Compliance-related documents; and
- The name of each security currently held in the client's account and the current amount in the account.

### **13.3.5 Records Destruction Policy**

Coastal recognizes that all records have a limited useful life and that laws and rules require certain records to be maintained only for a specified number of years. The Chief Compliance Officer shall have the sole authority to cause Coastal to destroy all records not required to be retained by Coastal by the procedures in this chapter or the books and records rule under the Advisers Act.

The Chief Compliance Officer shall document the destruction of records, including documenting the date of the destruction and a description of the documents and electronic media destroyed.

Neither Coastal nor any of its directors, officers or employees shall destroy any hard copy documents or information on electronic media if there is a pending or imminent audit, governmental investigation or litigation against Coastal or any of its employees unless:

- such hard copy document or electronic media is unrelated to such action; and
- an officer or other relevant employee with knowledge of such action, in conjunction with the Chief Legal Officer of Coastal or duly retained outside counsel, determines that it is lawful and appropriate to destroy the hard copy document or electronic media.

When Coastal determines to destroy any hard copy documents, it will:

- Make sure that the hard copy documents containing material non-public information are shredded or otherwise destroyed so that the information cannot be read or reconstructed; and
- Make sure that the destruction or erasure of electronic media containing material non-public information so that the information cannot be read or reconstructed.

Prior to retaining a hard copy document or electronic media disposal company, Coastal will:

- Obtain references from several reliable sources about such company;
- Take other actions necessary to determine the competency and integrity of such company; and
- Make sure that any company retained to dispose hard copy documents or electronic media performs such functions in a manner consistent with these procedures.

## **13.4 Books and Records**

Coastal will maintain the necessary documents and other records demonstrating its compliance with the Recordkeeping procedures set forth in this chapter.

# 14 COMPLIANCE

## Introduction

[Investment Advisers Act of 1940 Rule 206(4)-7]

Rule 206(4)-7 under the Investment Advisers Act of 1940, when effective on October 5, 2004, will require SEC-registered investment advisers to adopt written compliance procedures, review the adequacy of the compliance procedures annually, and designate a chief compliance officer. The SEC adopted the rule because it is critically important for investment advisers to have strong systems of controls in place to prevent violations of laws and to protect the interests of clients.

The SEC, state securities regulators and other regulatory agencies from time to time may conduct inspections and examinations of Coastal to ensure compliance with applicable laws and rules. In many cases, a regulatory inspection may be unannounced.

In this chapter, the firm appoints a Chief Compliance Officer, sets forth the firm's supervisory system, calls for training employees about compliance, and requires the firm to audit its compliance procedures.

## 14.1 Compliance Reference Chart

[Investment Advisers Act of 1940 Rule 206(4)-7; Investment Advisers Act of 1940 Section 203(e)(6)]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer</li></ul>
<b>Operational Areas</b>	<ul style="list-style-type: none"><li>• Investment Management</li><li>• Legal</li><li>• Operations</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Statute/Rule</b>	<ul style="list-style-type: none"><li>• Section 203(e)(6) of the Investment Advisers Act of 1940</li><li>• Rule 206(4)-7 under the Investment Advisers Act of 1940</li></ul>
<b>Records</b>	<ul style="list-style-type: none"><li>• This Compliance Manual and the versions of the Compliance Manuals that were in effect at any time during the last five years</li><li>• All records documenting Coastal's annual review of the Compliance Manual</li><li>• Written records of any Compliance Manual violation</li></ul>
<b>Audit</b>	<ul style="list-style-type: none"><li>• Coastal audits its Compliance Procedures annually.</li></ul>

## 14.2 Policy



It is Coastal's policy to have a Compliance Manual and Chief Compliance Officer, to require each employee to participate, at least annually in compliance training, to take swift remedial action to address any violations of Coastal's compliance policies and procedures and laws and regulations, and to fully cooperate with regulatory examiners.

## **14.3 Procedures**

### **14.3.1 Compliance Procedures**

Pursuant to proposed Rule 206(4)-7 under the Investment Advisers Act of 1940, Coastal has adopted this Compliance Manual and the compliance procedures contained herein. These Compliance Procedures shall be designed to:

- Prevent violations of the securities laws and other applicable laws from occurring;
- Detect violations that have occurred; and
- Correct promptly any violations that have occurred.

### **14.3.2 Chief Compliance Officer**

Coastal will have at all times a "Chief Compliance Officer" whose duties are to administer the compliance policies and procedures of Coastal. The Chief Executive Officer or senior management of Coastal shall appoint a single employee to be the Chief Compliance Officer. Such appointment shall be reflected in the minutes of a board or management meeting held by Coastal. The position of "Chief Compliance Officer" shall:

- Be occupied by a person who is competent and knowledgeable about the Investment Advisers Act of 1940 and rules thereunder, and other applicable laws;
- Have full ability to access Firm information technology systems for critical compliance information, such as trading exception reports and investment advisory agreements with key clients;
- Have the power with full responsibility and authority to develop and enforce the compliance policies and procedures of Coastal;
- Have sufficient seniority and authority at Coastal, comparable if possible to the Chief Financial Officer, Chief Operating Officer or Chief Investment Officer and with comparable direct reporting to the Chief Executive Officer and/or senior management, to compel others to adhere to the policies and procedures set forth in this Compliance Manual; and
- Be given the opportunity to regularly meet with Firm senior management.

The Firm will provide the Chief Compliance Officer with adequate resources including the authority to:

- Hire sufficient compliance personnel especially if the Firm has been experiencing significant growth;
- Participate in the Firm's budget process to ensure compliance receives a reasonable portion of the Firm's budget;
- Require Firm employees to participate in compliance training sessions;
- Purchase sufficient compliance information technology; and
- Engage compliance vendors.

The Chief Compliance Officer shall have specific duties described in this Compliance Manual. In addition, the Chief Compliance Officer shall:

- Monitor other firm employees who have specific compliance responsibilities under this Compliance Manual to verify that they have carried out those responsibilities in a timely manner;
- Ensure that all firm employees have access to a current copy of the Compliance Manual;

- Ensure proper licensing of all personnel in the jurisdictions where required;
- Conduct a periodic (or ongoing) review of Coastal's various activities to verify that Coastal is in compliance with applicable regulations and document this review;
- Keep current with all laws applicable to the operations of Coastal, best practices in the advisory industry, and other events impacting Coastal's compliance program;
- When appropriate, recommend amendments to this Compliance Manual and changes to the compliance program of Coastal in light of regulatory and industry developments, and changes in the business of Coastal;
- Prepare reports and summaries about the operation of Coastal's compliance program, including an Annual Report discussed below; and
- Periodically meet with senior management of Coastal to discuss the effectiveness of the compliance program.

### 14.3.3 Senior Management

The senior management of Coastal, including any directors of Coastal, shall have the overall responsibility to ensure that Coastal has in place an effective compliance program. In carrying out this responsibility, senior management shall:

- Periodically review this Compliance Manual and Coastal's overall compliance program so that they are familiar with the material features of this Compliance Manual and program;
- Understand particularly significant compliance risks of Coastal and how this Compliance Manual and compliance program address these risks;
- Review reports and summaries prepared by the Chief Compliance Officer about the operation of Coastal's compliance program, including an Annual Report discussed below; and
- Periodically meet with the Chief Compliance Officer to discuss the effectiveness of the compliance program.

### 14.3.4 Service Providers

In cases where service providers perform services that in part are related to an investment adviser complying with laws and rules, the investment adviser remains responsible for complying with such laws and rules and retains the responsibility to supervise the activities of the service provider related to complying with such laws and rules. Such arrangements require adequate initial and ongoing due diligence of the outsourced service providers.

The Chief Compliance Officer shall periodically interface with the compliance officers of key service providers to Coastal (e.g., the broker-dealer maintaining client records) so that he or she is familiar with their operations and the compliance risks they present for Coastal. Where appropriate, the Chief Compliance officer shall request the service provider to:

- Certify their compliance with applicable securities and other laws;
- Prepare periodic or special reports (e.g., a SAS-70 report) addressing compliance issues; and
- Conduct, or retain a firm to conduct, an audit of certain compliance functions of the service provider that impact Coastal.

The Chief Compliance Officer, senior management and other employees of Coastal shall cooperate with any reasonable requests by a service provider regarding the compliance procedures of Coastal that impact the operations of the service provider.

Prior to engaging any new service provider, Coastal will perform a due diligence review of the service provider candidate including taking some or all of the following steps:

- Site visit to the service provider candidate;
- Where possible, obtain RFPs from multiple service provider candidates;
- Review of systems used to interface with the service provider candidate including back-up systems;
- Request a list of existing customers of the service provider candidate and obtain assessments of the service provider candidate from such customers;
- Review of the proposed contract with the service provider candidate including provisions governing cybersecurity, non-disclosure of client information, liability, indemnification and disaster recovery plans; and
- Third party check of the service provider candidate's good standing in its state of organization and regulatory history.

### **14.3.5 Supervisory System**

Coastal has adopted a supervisory system and supervisory procedures to ensure that the policies and procedures set forth in this Compliance Manual are being followed and to prevent and detect prohibited practices. Through its supervisory system and procedures, Coastal has established clear lines of authority, accountability and responsibility.

#### **14.3.5.1 Supervised Persons and Supervisors**

[Investment Advisers Act of 1940 Section 202(a)(17); Investment Advisers Act of 1940 Rule 206(4)-7(a)]

Each "Supervised Person" of Coastal and Supervisor shall be subject to these Supervisory Procedures. Consistent with Rule 206(4)-7(a) under the Investment Advisers Act of 1940, "Supervised Person" of Coastal means:

- any partner, officer, or director of Coastal, or any other person occupying a similar status or performing similar functions,
- an employee of Coastal, and
- any other person (including an independent contractor) who provides investment advice on behalf of Coastal and is subject to the supervision and control of Coastal.

"Supervisor" of Coastal means an officer or employee of Coastal who has supervisory responsibility over some or all actions of a Supervised Employee.

The title and position of "Chief Compliance Officer" in and of itself does not carry supervisory responsibilities and an officer or employee holding such title would not necessarily be found to have failed to supervise another employee that commits a compliance violation.

Each Supervisor may appoint officers and employees of Coastal to supervise certain employees within their area of responsibility. If a Supervisor delegates such responsibility, he or she is responsible for ensuring that supervisory duties are being performed properly by the person who has been delegated such supervisory responsibility.

#### **14.3.5.2 Delegation of Supervisory and Compliance Responsibilities**

Each officer of Coastal may appoint an officer or employee under his or her supervision as a supervisor of other officers and employees, provided such delegation has been approved by the Chief Compliance Officer or such delegation is expressly permitted by this Compliance Manual. The supervisory structure, including each supervisor and those officers or employees he or she supervises, shall be set forth in an organizational chart (this may be the Supervision Matrix shared with Coastal's affiliate broker-dealer,) which shall be kept current.

### 14.3.5.3 Appointments of Supervisors

Before designating a particular officer or employee as a supervisor, the officer making such appointment will consider the following factors:

- The type of activity the potentially supervised employee conducts;
- Whether the particular officer or employee has clearly been given, or otherwise assumed, supervisory authority or responsibility for particular business activities or situations;
- Whether Coastal's policies and procedures, or other documents, identify the particular officer or employee as responsible for supervising, or for overseeing, one or more potentially supervised employees or activities;
- Whether the particular officer or employee has the requisite degree of responsibility, ability or authority to affect the potentially supervised employee's conduct;
- Whether the particular officer or employee has the ability to hire, reward or punish the potentially supervised employee.

If a violation occurs by an employee, whether any other employee at Coastal will be deemed to be its supervisor for purposes of the violation depends upon the facts and circumstances surrounding the violation and role of both employees, including:

- Did the employee in question otherwise have authority and responsibility such that he or she could have prevented the violation by the other employee from continuing, even if he or she did not have the power to fire, demote or reduce the pay of the employee in question?
- Did the employee in question know that he or she was responsible for the actions of the employee who committed the predicate violation, and that he or she could have taken effective action to fulfill that responsibility?
- Should the employee nonetheless reasonably have known in light of all the facts and circumstances that he or she had the authority or responsibility within the administrative structure to exercise control to prevent the underlying violation?

### 14.3.5.4 Chain of Supervision

Coastal maintains a list of Supervisors on its Supervision Matrix maintained in conjunction with its affiliate broker-dealer.

Other positions include:

**President:** overall supervisory responsibility with financial decision-making authority on certain matters. Confers with the Chief Compliance Officer on compliance matters.

**Chief Compliance Officer:** responsible for compliance program and discrepancies, irregularities and deficiencies that arise in the operation of the compliance program.

**Chief Operating Officer:** responsible for day-to-day operations of Coastal.

**Chief Financial Officer:** responsible for financial matters of Coastal and supervises employees who prepare Coastal's financial statements and perform other accounting functions.

**Secretary:** responsible for corporate and organizational matters of Coastal, including meetings of board or other oversight body.

### 14.3.5.5 General Supervisory Responsibilities

A Supervisor is responsible for overseeing the activities of the Supervised Person(s) he or she supervises and taking appropriate action, or recommending senior management of Coastal to take appropriate action, reasonably designed to achieve compliance with respect to such Supervised Person(s). A given compliance officer, including the Chief Compliance Officer, will not be a supervisor over a particular business line or group of employees solely by virtue of his or her position. By providing advice concerning compliance or legal issues to a business line employee, a compliance officer will not automatically be deemed to be a supervisor of such person. Determining whether a particular employee is a supervisor depends on whether, under the facts and circumstances, that employee has the requisite degree of responsibility, ability or authority to affect the conduct of other employees of Coastal.

Each Supervisor must:

- Possess the knowledge and experience necessary for the supervisory position;
- Be familiar with and understand the contents of the Compliance Manual;
- Be properly licensed to conduct the assigned supervisory responsibilities; and
- Perform the supervisory responsibilities, including the authority to discipline or otherwise affect the conduct of, the employee being supervised.

In addition to the supervisory responsibilities noted elsewhere in this Compliance Manual, each Supervisor shall:

- Ensure that the Compliance Manual, updates to the Compliance Manual, and all other compliance materials are timely delivered to each of his or her Supervised Persons, including new employees who come under his or her supervision;
- Ensure that his or her Supervised Persons know and understand the contents of the Compliance Manual as it relates to their day-to-day activities;
- Promptly review all incoming and outgoing correspondence between his or her Supervised Persons and clients;
- Designate officers or employees, if needed, to oversee the activities of Supervised Persons within his or her area of responsibility;
- Effectively communicate with his or her Supervised Persons;
- Monitor his or her Supervised Persons for irregular or improper activity;
- Promptly notify the Chief Compliance Officer of any irregular or improper activity of his or her Supervised Persons;
- Promptly notify the Chief Compliance Officer and senior officers of Coastal in writing of any known civil, criminal or administrative action brought against any of his or her Supervised Persons; and
- Review and submit all client complaints made against his or her Supervised Persons to the Compliance Officer and Coastal's chief legal counsel.

#### **14.3.5.6 Employee Supervision**

A Supervisor with respect to the activities of each Supervised Person he or she supervises shall periodically:

- Review the activities of the Supervised Person to make sure such Supervised Person is carrying out his or her assigned responsibilities in a manner that complies with Coastal's policies and procedures;
- Ensure that the Supervised Person has received sufficient training with respect to his or her assigned responsibilities;
- Examine periodic incoming and outgoing communications of the Supervised Person;
- Review personal securities trading reports of the Supervised Person;
- Report to the Chief Compliance Officer any change of lifestyle by the Supervised Person that is not supported by his or her production or income changes;
- Report to the Chief Compliance Officer the Supervised Person's failure to timely make any required reports or certifications;
- Review client complaints involving the Supervised Person; and
- Immediately report to the Chief Compliance Officer and the supervisor of the Supervisor any compliance violations or irregular activities committed by the Supervised Person.

During a pandemic or other disaster that confines Supervisors and Supervised Persons to their respective residences, the following steps may be taken in the discretion of the supervisor in order to facilitate supervision remotely:

- Conduct periodic one-on-one virtual meetings between a Supervisor and Supervised Persons, as well as periodic video conference calls that includes all or a significant number of employees;
- Encourage Supervised Employees to call telephonically or virtually with questions and concerns instead of communicating in writing through e-mails;
- If safe conditions are achievable (*e.g.*, outside, masks and social distancing), Supervisors and Supervised Employees periodically should meet in person; and
- As approved by Coastal, acquire and implement software and hardware that facilitates remote communication, supervision and compliance audits.

#### **14.3.5.7 Failure to Supervise**

Any Supervisor of Coastal is potentially liable for violations committed by any Supervised Person that he or she indirectly or directly supervises (which would be called a "failure to supervise charge"). Consistent with Section 203(e)(6) of the Investment Advisers Act of 1940, a Supervisor of Coastal will not be deemed to have failed to reasonably supervise the Supervised Person if the Supervisor:

- had reasonably discharged his or her supervisory responsibilities in accordance with the Compliance Manual and any applicable compliance procedures; and
- had no reason to believe the Supervised Person was not complying with the Compliance Manual and its procedures.

To better avoid a failure to supervise charge, Supervisors will take steps to ensure that their Supervised Persons:

- have the requisite level of knowledge and experience for tasks Supervised Persons are undertaking;
- are and remain competent for the work Supervised Persons undertake; and
- are appropriately supervised and that the Supervised Persons' competence is regularly reviewed.

#### **14.3.5.8 Employee Compliance Responsibilities**

Employees, including officers, may have compliance responsibilities even if they are not compliance officers or do not report to compliance officers. Because investment advisers are heavily regulated, the ordinary operations of areas such as portfolio management, marketing and billing generate compliance responsibilities that must be carried out by a variety of employees.

Coastal shall assign compliance responsibilities to employees as follows:

1. The Chief Compliance Officer and department heads (or persons with similar positions) shall review the Firm-related responsibilities of each employee and identify whether such responsibilities involve compliance with the Investment Advisers Act of 1940, Securities Act of 1933 or other applicable law;
2. Each employee with compliance responsibilities will be informed about and assigned compliance responsibilities and expected to perform such responsibilities in accordance with applicable procedures;
3. Coastal shall designate a supervisor of each employee with compliance responsibilities and determine the role of compliance officer with respect to how such compliance responsibilities will be monitored and tracked; and
4. Each employee with compliance responsibilities shall receive adequate training regarding how he or she should carry out their responsibilities.

## 14.3.6 Audits

### 14.3.6.1 Annual Review

Pursuant to Rule 206(4)-7 under the Investment Advisers Act of 1940, Coastal shall conduct a comprehensive review of this Compliance Manual and Coastal's compliance program by April 6, 2007 and annually to determine the adequacy of Coastal's compliance policies and procedures and the effectiveness of their implementation. In this review, the Chief Compliance Officer shall prepare an annual report, distribute the annual report to senior management, and implement revised policies and procedures.

#### 14.3.6.1.1 Material Compliance Matters

A "Material Compliance Matter" means any compliance matter about which Coastal's senior management would reasonably need to know to oversee Coastal's compliance, and that involves, without limitation:

1. A violation of the federal or state securities laws, and other applicable laws and regulations, by Coastal or any of its officers, directors, employees or agents thereof,
2. A violation of these policies and procedures, or
3. A weakness in the design or implementation of these policies and procedures.

As part of the annual review, the Chief Compliance Officer shall:

- Attempt to detect or uncover Material Compliance Matters by, for example, using employee certifications, testing, investigating, and complaint logs;
- Note in writing each Material Compliance Matter that arose during the previous year, including deficiencies noted in SEC and other regulatory examination letters;
- Confirm that each Material Compliance Matter was reported to senior management, was corrected and is not reoccurring;
- Review the current procedure(s) addressing the operational area that was subject of the Material Compliance Matters;
- Verify whether the current procedures are effective in detecting and preventing the occurrence and reoccurrence of Material Compliance Matters;
- Revise current procedures or add new procedures if necessary to prevent reoccurrence of the Material Compliance Matters; and
- Review actions taken when a Material Compliance Matter was detected, including actions towards individuals, and whether the corrective action was sufficient.

#### 14.3.6.1.2 Review of Critical Operational Areas

At a minimum, the Chief Compliance Officer and designees will review and document the review of the following critical areas of Coastal:

- **Investment Management.** Review consistency of client portfolios with client objectives and Coastal's disclosure in Form ADV. Confirm that the security valuation included in client reports correspond with the values derived from an independent pricing service or custodian records. Closely review any instance in which a supervised person over-rode an independently derived price. Also, closely review the valuation of illiquid securities.
- **Trading.** Review best execution, trade aggregation and fairness of trade allocation.
- **Employees.** Review employees' quarterly personal trading reports and compare employee trades with client trades. Verify that any purchases of IPOs and private placements were pre-cleared. Review the

most profitable trades made by employees and determine whether any material information about the issuers became public around the time of the employee trades.

- **Registration & Filings.** Review accuracy of disclosure, whether all required filings were made, and registration status of employees. Make sure that the Form ADV, if posted on the web site, is the most up-to-date version.
- **Marketing.** Review advertisements, performance calculations and use of solicitors.
- **New Clients.** Review client in-take practices, including information obtained. Confirm that a privacy notice, Firm Brochure and Brochure Supplement(s) (if applicable) were given to all new clients during the review period.
- **Existing Clients.** Review compliance with privacy policy, protection of client information and accuracy of reports sent to clients. Confirm that a privacy notice, Firm Brochure and Brochure Supplement(s) (if applicable) have been sent to existing clients at least once during the past year. Pull a sample of contracts with third-party service providers and confirm that such contracts prohibit the service providers from using clients' non-public, personal information for any purpose other than performing their obligations under the contract.
- **Advisory Contract & Fees.** Review compliance with advisory contract and accuracy of fee calculations.
- **Custody.** Review custody of client assets with banks and broker-dealers, including reports sent to clients. Review the handling of any inadvertent receipt of client assets (e.g., stock certificates).
- **Business.** Review disaster recovery procedures and make sure that at least one disaster drill was performed during the review period.
- **Books and Records.** Review accuracy of input of records and completeness of records.

A report of each review of the above areas shall be prepared upon completion and promptly made available to the management of Coastal and the findings of such report shall be made part of Coastal's annual compliance review.

#### 14.3.6.1.3 Annual Report

The annual compliance report shall be a written document divided into the following sections or cover the following areas:

- Overview of Coastal's compliance program;
- Purpose of the annual review and the dates of review period;
- Brief summaries of key policies and procedures;
- Evidence of conducting the annual review including information collected and reviewed in connection with the annual review, including the past year's annual report, compliance reports generated throughout the year, interviews with investment advisor representatives and others, interviews with, and documents generated by, service providers, completed compliance checklists and evidence of other completed processes, including backtesting fee calculations and testing business continuity plans;
- Compliance matters that arose during the previous year;
- Significant areas of the Firm's business, such as the oversight and review of recommended third-party managers, cybersecurity, and the calculation of fees and allocation of expenses
- Significant risks of the Firm such as conflicts and protection of client assets;
- Results of third-party compliance testing, if any;
- Changes in the business activities of Coastal;
- Previous SEC and other regulatory examination deficiency letters to confirm that past deficiencies were corrected and are not reoccurring;
- Changes in the Investment Advisers Act of 1940 and other applicable laws and regulations that might suggest the need to revise certain policies and procedures;
- Revisions made to the policies and procedures during the reporting period, and proposed revisions not yet implemented;
- Analysis of the compliance procedures and program;
- Conclusions drawn from the analysis of information, including high risk compliance areas, adequacy of policies and procedures, and adequacy of support of the Chief Compliance Officer in terms of manpower, budget and resources; and



- Specific recommendations.

#### **14.3.6.1.4 Distribution of Annual Compliance Report**

The Chief Compliance Officer shall distribute the compliance report and any other relevant documents (e.g., a report from an outside auditor or service provider) to senior management. Shortly after the distribution of the report, senior management, the Chief Compliance Officer and any and all other relevant employees or officers of Coastal shall have a meeting devoted to the annual review of Coastal's compliance program.

#### **14.3.6.1.5 Implementation of Revised Policies and Procedures and Annual Report Recommendations**

After the issuance of the annual compliance report and the annual compliance meeting, the Chief Compliance Officer shall:

- Revise this compliance manual as necessary;
- Circulate revised sections of the manual to appropriate personnel; and
- Take steps to implement new compliance policies and procedures (e.g., acquisition and installation of new software)

#### **14.3.7 Resources**

Coastal's senior management will ensure that the Chief Compliance Officer and his or her staff (if any) have sufficient resources to operate and maintain an effective compliance program. The Chief Compliance Officer will request, and senior management will consider providing, all resources required for operating and maintaining the compliance program, including requests for computer software and hardware, new compliance employees and other initiatives intended to improve the compliance program. The Chief Compliance Officer shall document all such requests and senior management's response to those requests.

#### **14.3.8 Independent Review of Compliance Program**

From time to time, Coastal will consider engaging an accounting firm, law firm or consulting firm independent of Coastal to perform a review and analysis of Coastal's compliance program or certain aspects of the program. Under certain circumstances, Coastal may request an independent auditor to attest to the conclusion by management of Coastal about the effectiveness of the compliance program or the effectiveness of Coastal's internal control structure over compliance with specified laws, rules and regulations.

After the engagement by an independent firm, the Chief Compliance Officer and senior management of Coastal will review the findings of the firm and consider whether to act upon any specific recommendations made by the independent firm. The Chief Compliance Officer may rely upon an independent consulting firm as the full or partial basis for his annual compliance review described in the previous section.

#### **14.3.9 Regulatory Inspections**

Advisers such as Coastal are examined by the Office of Compliance Inspections and Examinations ("OCIE") of the SEC. OCIE conducts exams out of Washington D.C. and each of the SEC's 11 regional offices. In 2012, OCIE announced that it would begin conducting focused, risk-based exams of investment advisers

conduct examinations of recently registered advisers. OCIE calls these exams "presence exams."

When the SEC, state securities commission or other regulatory agency contacts or meets an employee of Coastal, the following procedures must be followed:

1. The employee who is the recipient of such contact must, as soon as possible, inform the Chief Compliance Officer about the matter;
2. The Chief Compliance Officer shall arrange for Coastal to make available all documents requested by the examiner, provided such examiner has the legal right to examine such documents;
3. The Firm shall maintain the necessary software and/or apps to respond to OCIE information requests including:
  - o Kiteworks
  - o Secure E-mail
  - o Transport Layer Security
4. The Chief Compliance Officer shall review prior to the arrival of the inspection staff:
  - o Overview of Examinations by the Securities and Exchange Commission's Office of Compliance Inspections and Examinations (February 2012) - <http://www.sec.gov/about/offices/ocie/ocieoverview.pdf> ;
  - o Examination Brochure - <http://www.sec.gov/divisions/enforce/enforcementmanual.pdf> ;
  - o SEC's National Examination Program's website - <http://www.sec.gov/about/offices/ocie.shtml> ; and
  - o Listing of local SEC offices (contact information for senior examination staff) - <http://www.sec.gov/about/offices/ocie.shtml> .
5. Upon the examiner's arrival, the Chief Compliance Officer should ask the official for: (i) proper identification, (ii) his or her authority to conduct the examination, and (iii) the purpose of the visit;
6. The Chief Compliance Officer and any other Coastal personnel chosen to assist the regulatory inspection team should be pleasant and cooperative;
7. Information or copies of documents should be provided to the official only if the release of such information or documents has been cleared by the Chief Compliance Officer;
8. The Chief Compliance Officer will ensure that only those documents specifically requested by the regulatory inspection team are released to the regulatory inspection team;
9. A representative of Coastal should accompany the regulatory inspection team at all times when the team is in Coastal's office(s), except in a room or rooms designated by the Chief Compliance Officer as places where the team can perform their inspection;
10. Without prior clearance from the Chief Compliance Officer, no Coastal employee may have substantive conversations with any member of the regulatory inspection team unless the employee is approaching the regulatory inspection team concerning a whistleblower matter under federal law;
11. Upon completion of the examination, the Chief Compliance Officer will ask a member of the SEC's inspection team the date when the examination will be completed. (Under the Dodd-Frank Act, the SEC has 180 days from the date of its document request to complete its examination of a registered investment adviser);
12. The recipient of any letter or other correspondence from the inspecting regulatory authority must promptly forward such correspondence to the Chief Compliance Officer;
13. The Chief Compliance Officer in coordination with the inside or outside legal counsel of Coastal will review the correspondence from the inspecting regulatory authority and respond, if so required, in the appropriate manner prior to any deadline imposed by the inspecting authority; and
14. If OCIE identifies deficiencies or weaknesses, Coastal will take steps to address and eliminate such deficiencies and weaknesses and memorialize the actions taken in a memorandum. If serious deficiencies are found, OCIE may refer the problems to the SEC's Division of Enforcement, or to a self-regulatory organization, state regulatory agency, or other regulator for possible action.

### 14.3.10 Compliance Manual Violations

When a violation of the Compliance Manual or a law or regulation is detected, Coastal will follow the procedures set forth below:

1. If an employee who discovers a violation or suspects that a violation has occurred, such employee shall report the violation immediately to the Chief Compliance Officer;
2. The Chief Compliance Officer will determine whether the matter is technical or otherwise is not likely to result in a regulatory enforcement action or have an adverse financial impact on Coastal;
3. If the matter is technical or does not pose a threat of regulatory action or adverse financial consequences, the Chief Compliance Officer will investigate the matter to see if the alleged violation occurred. The Chief Compliance Officer shall take the appropriate remedial action and report on the matter at Coastal's next Compliance Committee meeting; and
4. If the matter is serious, the Chief Compliance Officer will immediately contact senior management of Coastal and a collective decision will be reached on how to proceed with investigating and resolving the matter.

Possible responsive actions by Coastal to an employee who commits a compliance manual violation include, but are not limited to, the following:

- Terminate the employment of the employee;
- Impose heightened supervisory procedures over the employee;
- Thoroughly review client account activity;
- Require the supervisor to sign-off daily activity of the employee;
- Restrict the employee's activities;
- Provide the employee with additional training;
- Assign a mentor to the employee;
- Restrict use of certain types of communications that the employee may make to clients; and
- Fine the employee.

### **14.3.11 Risk Assessment**

Annually, Coastal shall assess the compliance risks presented by its operations.

First, it will inventory all of its significant activities, including the following areas of its business:

- Investment Management
- Trading (including best execution, cross trading and trade allocation)
- Research
- Back Office or Account Administration
- Marketing (including performance composite calculation)
- Insider Trading
- Clients (including verification of their identity, complaints, communications, and meeting objectives)
- Custody
- Fees (including accuracy of fee calculations)
- Disclosure (including accuracy of Form ADV)
- Information and Computer Systems (including maintenance of privacy of client information)
- Relationship with Third Party Vendors (e.g., broker-dealers) and Financial Product Providers (e.g., mutual funds and their distributors)
- Firm personnel (including background checks)
- Third-Party (finder) payments

Second, Coastal will flag areas of potential risk with respect to the activities identified.

Third, Coastal will rate each area of risk. When rating a particular risk, Coastal will consider the following factors:

- How susceptible the activity is to conflicts of interest;

- Any changes in the Firm's business;
- Any new regulations or revisions applicable to the assessed risk;
- Testing performed of current procedures designed to mitigate such risk;
- Any controls in place to mitigate the risk, and, if so, the effectiveness of the controls;
- Whether the CCO, SEC or other inspecting regulatory body has found deficiencies in that particular area; and
- Whether the activity is a new area of business, including a new product line.

Fourth, the firm will log each risk assessment including the date and name of reviewer.

Fifth, after the above analysis, the Firm will recommend any new procedures or modifications to existing procedures or training to address the activity presenting the risk or heightened risk.

### **14.3.12 CCO-CEO Communications**

The Chief Compliance Officer shall:

- Send Coastal's annual compliance report to the chief executive officer (CEO) of Coastal;
- Meet with the CEO to discuss the annual compliance report and discuss with the CEO, at a minimum, the following:
  - Status of compliance policies and procedures;
  - Modifications to policies and procedures;
  - Testing of effectiveness of policies and procedures;
  - Concerns the Chief Compliance Officer has about compliance supervisory system; and
  - Specific recommendations to improve Coastal's compliance program.

### **14.3.13 Amendments to Compliance Procedures**

Based upon the annual compliance review, or periodically, the Chief Compliance Officer shall formulate and prepare specific changes to the compliance procedures of Coastal. The Chief Compliance Officer shall:

- Issue updates to relevant officers and employees that describe the changes and includes the revised sections;
- Periodically review this Compliance Manual for necessary updates and inaccuracies including for outdated information, such as references to entities no longer in existence and personnel that have changed roles and responsibilities;
- Disseminate updates;
- Maintain logs of compliance updates and disseminated updates; and
- Maintain prior compliance manuals.

### **14.3.14 Forensic Testing Guidelines**

Forensic tests are transactional or quality control tests that are designed to determine whether the activities of Coastal are consistent with these policies and procedures.

The following forensic tests are applicable when testing various functions of the firm:

#### **Existing Investors**

Periodically, pull a number of client files to verify that each file includes an executed advisory contract, any investment policy test, investment restrictions, account statements, broker-dealer and/or custodian forms, correspondence and all other necessary documents.

## **Investment Management**

### *Performance Disparities Among Client Accounts.*

Compare the performance among client accounts managed under similar investment objectives and styles for undisclosed favoritism toward certain clients. When making such comparisons:

- Compute the mean of the accounts in terms of performance;
- Identify accounts with performance of two or more standard deviations, plus and minus, away from the mean performance of accounts managed under a particular investment style; and
- Determine the reasons for why material dispersions (if any) exist.

### *Pricing of Securities.*

- Review the pricing of securities prior to the sale date. Compare selling prices to the price used the previous day or to prices used over the previous several days.
- Review portfolio for static prices (i.e., positions that have had the same value for a significant period).

### *Differences between Selling Prices and Fair Values.*

- Compare fair values with selling prices to evaluate the accuracy of fair value pricing procedures.
- Compare prices realized upon the sale of securities with the valuation applied to those securities at their most recent valuation dates. Aggregate the results of these individual tests across long periods and use market factors to test the efficacy of the fair value pricing process. Evaluate results to determine if fair value pricing processes produce systematic overvaluations.
- Note those instances where prices used to value positions in clients' accounts do not accurately reflect current market conditions and the prices that could have been realized upon a then current sale of positions.

### *Large Change in Client Account Value and Errors.*

- Review any large percentage change in the value of a client's account to vet the accuracy of the process used to calculate the net asset value of the client.
- Evaluate errors to vet the accuracy of the net asset value of a client's account and the client account valuation process. Review remedial actions taken, including those that involved making the shareholder whole.

### *IPOs*

- Review all arrangements in which Coastal or any affiliate of Coastal has been involved with or related to the initial distributions or offerings and whether any client purchased securities in such offerings.
- Review all initial public offerings in which clients, proprietary accounts or access persons participated to ascertain the fairness of each such person's participation.

### *Client Mandates*

Review random portfolio decisions made for clients to ensure they were consistent with clients' mandates including investment objectives, restrictions and risk tolerance, regulatory requirements and disclosures.

## **Brokerage**

### *Average Commission Rates.*

- Compute the average commission rates paid to broker-dealers used during a period to identify brokers with which Coastal may have undisclosed conflicts of interest.
- Calculate the average commission rates paid by various advisory clients and compare the individual client averages to the average commission rate paid by all clients. Identify significant disparities among clients and identify clients who have been referred or have directed brokerage arrangements, which

may result in these clients paying different commission rates than other clients of the adviser or getting less effective executions.

#### *Total Commission Paid to Broker-Dealers.*

- Calculate the total commissions paid to each broker-dealer used during a period to identify brokers with whom Coastal has a significant relationship. This forensic test may show the relative importance of each broker-dealer with whom Coastal maintains an arrangement and may reveal undisclosed conflicts of interest.

#### *Broker-Dealers*

- Review the list of broker-dealers with whom Coastal currently uses to ensure that it is up-to-date and accurate and that all broker-dealers on such list have been approved for use by Coastal.

### **Trading**

#### *Trade Allocation.*

- Compare performance among client accounts managed under similar investment styles over a one or two year period. Identify accounts whose performance is significantly higher than the average of all accounts in a style. Review trading in such accounts to determine if a reason for the unusual performance is due to the unfair or fraudulent allocation of trades. For example, Coastal will check to see if a trade intended for one client was diverted to the account of another client by changing the allocation or settlement instructions given to the executing broker.
- Compare the performance of all accounts that were eligible to participate in an IPO over various periods such as one or two years. Accounts whose performance is significantly higher than the average for this group of client accounts will be analyzed to determine if a reason for the unusual performance is how Coastal allocated IPOs.
- Calculate the number of profitable trades in each client's account over the prior 12 months and the average number of such trades for all clients. Identify those clients' accounts that have much higher returns than the average returns and determine the reasons for such results.

#### *Trade Errors.*

- Select accounts in which trade errors have occurred for a sample period and review the entries to make sure such errors have been corrected promptly.
- Identify any concentrations of errors by a single broker-dealer. Follow-up on any efforts to get the broker to reduce its error rate and to ensure that there are no undisclosed conflicts of interest.

### **Marketing**

#### *Window Dressing and Portfolio Pumping.*

- Compare portfolio turnover at the end of several reporting periods in comparison to portfolio turnover during longer periods to identify patterns of activity that could demonstrate the intent to pump the portfolio (i.e., manipulate trading to boost performance at the end of a period) or to window dress (i.e., improve the appearance of the portfolio or its performance before it is reported to clients). Compute portfolio turnover rates for the five or ten days before and after quarter ends for a two or three-year period and compare these short-period turnover rates, both individually and on average, to the portfolio turnover for the account for one year periods.

#### *Performance Presentations.*

- Periodically review client account holdings for an account's appropriateness to a composite, including sector and security concentrations.
- Compare client account asset levels to composite asset minimums.
- Review accounts that are excluded from composites to ensure that reasons for the exclusion are adequate and documented.

- Periodically review composite disclosures to ensure the information reported is accurate.
- Periodically test recordkeeping practices to ensure that all documents necessary to substantiate advertised performance are being appropriately created and retained.
- Review claims of compliance with GIPS for accuracy.

#### *RFPs.*

- Periodically review RFPs to ensure the information reported is truthful and not misleading.

### **Employees**

#### *Access Person Trades.*

- Verify that the list of access persons is up-to-date.
- Sample various employees to ensure that all personal trades during a tested period were reported.
- Consider including proprietary and other related trades in Coastal's electronic trading system, allowing for electronic tracking of access persons' trades.
- Systematically compare personal trading to any restricted lists.
- Periodically analyze access persons' trading for patterns that may indicate abuse, such as consistently trading ahead of client accounts.
- Review client files of affiliated person for any unreported brokerage account.

#### *Performance Disparities Among Clients and Accounts of Insiders.*

- Calculate one and three year average annual total returns for every proprietary account of Coastal and every account of an access person. Compare the returns of these accounts to those earned by clients and further analyze any wide discrepancies.
- Compare performance among client and proprietary accounts managed under similar investment styles over a one or two year period. Identify accounts whose performance is significantly higher than the average of all accounts in a style. Review trading in such accounts to determine if a reason for the unusual performance is due to the unfair or fraudulent allocation of trades. For example, check to see if a trade intended for one client was diverted to a proprietary account or the account of an insider by changing the allocation or settlement instructions given to the executing brokers.

#### *Percentage of Profitable Trades in Accounts.*

- Calculate the number of profitable trades in each proprietary and access person's account over the previous 12 months and the average number of such trades for these accounts. Compare the number of profitable trades in these propriety/access person accounts to those in clients' accounts and if there are significant discrepancies, determine the reason.

### **Custody**

#### *Third-Party Custodian Statements and Reconciliations.*

- Review periodic reconciliation of client account statements for patterns among the reconciling items used over a period of time (e.g., six months) to balance the positions shown by custodians to those shown on the books of Coastal.
- Identify any reconciling items that consistently appear from one reconciliation to the next. These items may indicate a misuse or misappropriation of client assets. Alternatively, they may indicate poor recordkeeping that could result in misuse or misappropriation of client assets.
- Confirm that advisory accounts, including those of commingled accounts, are held in a secure manner and moved in ways that protect them from theft.
- Confirm that information provided to clients regarding transactions in and balances of their accounts accurately reflects the actual transactions in and balances of those accounts and reflects fairly all decisions affecting these accounts.

### **Compliance**

Ensure that Coastal is generating and maintaining necessary compliance testing documents and information including:

- Compliance reviews;
- Quality control analyses;
- Surveillance information;
- Forensic and transactional tests performed;
- Significant compliance findings; and
- Information about corrective or remedial actions taken regarding these findings.

### **14.3.15 On-Site Branch Office Reviews**

The Chief Compliance Officer (or other compliance department personnel) periodically on a risk basis will perform testing and reviews of key compliance requirements and responsibilities at each and every branch office of the Firm and will conduct more frequent reviews as necessary. At a minimum, the Chief Compliance Officer shall perform the following compliance oversight and testing at a branch office or remotely, as applicable:

- Validating that the branch office undertakes and completes assigned compliance responsibilities including reviews of their portfolio management decisions;
- Interviewing Investment Adviser Representatives (IARs) at the branch office or remotely, including to assess whether their investment recommendations were consistent with clients' investment objectives or recommendations; and
- Conducting compliance reviews that do not solely rely on self-reporting by personnel.

#### **Branch Office Employees with Disciplinary Histories**

The Chief Compliance Officer will verify that the applicable supervisors at the branch office are reviewing and properly supervising IARs and other personnel with disciplinary histories, verifying that such personnel are receiving the necessary heightened supervision and documenting such reviews in accordance with any such written heightened supervision plan.

#### **Branch Definition**

A branch is a "brick and mortar" location. An IAR may be associated with a branch even if he/she works remotely, and may be associated with the Home Office as a branch with approval by the Firm. Correspondence and letterhead must identify the branch location.

#### **Findings**

The person in charge of the branch will receive examination findings, if any, from the examiner. The branch will have 30 days to respond to the findings. Examination findings shall be reported to the CCO and to management if any corrective action is required by the branch.

#### **Pandemic or other Business Continuity Plan Inspections/Non-branch Locations**

Such examinations may be conducted remotely. Interviews may be conducted over the telephone or by video conference in the discretion of the examiner. IARs who are not associated with a branch location (e.g. work from home on a permanent basis) may be inspected in accordance with this section.

## **14.4 Form ADV Disclosure**

In general terms, Coastal will disclose in its Brochure (Part 2A) that it has compliance policies and procedures.



## 14.5 Books and Records

[Investment Advisers Act of 1940 Rule 204-2(a)(17)]

Coastal will maintain, in its Compliance books and records:

- The Compliance Manual (including its policies and procedures) that is in effect and Compliance Manuals that were in effect at any time during the last 5 years; and
- All records documenting Coastal's annual review of the Compliance Manual, including its compliance policies and procedures (Rule 204-2(a)(17)).

In addition, Coastal shall maintain in its Compliance books and records:

- Written records of any Compliance Manual violation, including the alleged violation, the investigation of the matter, actions taken and how the matter was ultimately resolved;
- Exception reports, reconciliation statements, checklists, tests and similar compliance-related documents;
- Results of any tests and follow-up actions taken by Coastal to address shortfalls or violations revealed by such tests, including warnings to or disciplinary action of employees, changes in policies and procedures, redress to affected clients and other measures;
- Correspondence from regulatory agencies in connection with inspections of Coastal, as well as copies of all other documents prepared in connection with each regulatory inspection; and
- A current list of the names of each of the Supervisors identified above so that Coastal may easily determine who is responsible for supervising a particular IAR or business activity of Coastal and the time period for which the person was assigned the supervisory responsibility. Such list shall include (i) the full name of the supervisor; (ii) the employees under the supervision of the Supervisor.

## Policies and Procedures Manual

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