

# New Century Advisors, LLC

Investment Adviser Brochure (Form ADV: Part 2A)

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**December 31, 2022**

This brochure provides information about the qualifications and business practices of New Century Advisors, LLC. If you have any questions about the contents of this brochure, please contact Thomas Hines, Chief Compliance Officer at 240-395-0550 or [thines@ncallc.com](mailto:thines@ncallc.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 New Century Advisors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

2 Wisconsin Circle, Suite 940  
Chevy Chase, Maryland 20815  
240-395-0550

[www.newcenturyadvisors.com](http://www.newcenturyadvisors.com)

LinkedIn: New Century Advisors, LLC  
CICI# DEVB8JUDJHTAYCPTWD49

## ITEM 2 - MATERIAL CHANGES

This brochure, dated December 31, 2022, serves as an update to the last annual update to the brochure dated March 11, 2022. New Century Advisors, LLC will update this brochure: 1) annually, and 2) promptly when certain information becomes materially inaccurate. This section contains a description of only the material changes to the brochure since the last annual update.

- New Century Advisors, LLC has established a business location in Pittsburg, Pennsylvania
- Additional fee disclosures added as New Century Advisors, LLC participates in a wrap-fee program as a portfolio manager.

New Century Advisors, LLC will provide you with a summary of any materials changes to this and subsequent brochures by April 30 of each year. You can request our brochure at any time by contacting Thomas Hines, Chief Compliance Officer at 240-395-0550 or [thines@ncallc.com](mailto:thines@ncallc.com).

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## ITEM 4 - ADVISORY BUSINESS

New Century Advisors, LLC (“NCA LLC”), founded in March 2002, provides discretionary fixed-income and US SMID Cap Equity portfolio management services primarily utilizing separate accounts. The headquarters is located at 2 Wisconsin Circle, Suite 940, Chevy Chase, Maryland, 20815. New Century has also opened an office in New Rochelle, NY, Aspen, CO and Pittsburgh, PA. The primary functions performed in the New York, Colorado and Pennsylvania offices are investment research and trading.

New Century Advisors, LLC also provides investment management services to clients in wrap fee programs sponsored by a bank or broker-dealer (“BD”). There is no difference in New Century Advisors, LLC’s investment management strategy or philosophy between wrap fee accounts and its other clients. Wrap-fee programs, which are described in more detail in the applicable disclosure brochures published by their respective sponsors, charges its clients a bundled asset-based fee for an array of investment services, such as brokerage, advisory, research, custody and management services. New Century Advisors, LLC does not sponsor a wrap fee program.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Ellen B. Safir
- Nils C. Overdahl

NCA LLC offers the following investment strategies to clients:

- Short Duration Plus Bond – portfolios that seek to preserve and enhance the real value of assets relative to a U.S. benchmark, e.g. Merrill Lynch 1-3 year Treasury.
- Core Bond - portfolios that seek to achieve a value-added rate of return relative to a U.S. benchmark, e.g. Bloomberg Barclays Aggregate Index.
- Intermediate Core Bond - portfolios that seek to achieve a value-added rate of return relative to a U.S. benchmark, e.g. Bloomberg Barclays U.S. Intermediate Aggregate Index.
- US TIPS - portfolios that seek to achieve a value-added rate of return relative to a U.S. benchmark, e.g. Bloomberg Barclays U.S. TIPS Index.
- US TIPS 1-5- portfolios that seek to achieve a value-added rate of return relative to a U.S. benchmark, e.g. Bloomberg Barclays 1-5 TIPS Index.
- Global Inflation Linked (Hedged and Unhedged strategies) - portfolios that seek to achieve a value-added rate of return relative to a non-U.S. benchmark, e.g. Barclays Global Bond Index.

- Multi-Asset Real Return Strategy - portfolios that seek to achieve a value-added rate of 300 basis points above the 12-month Consumer Price Index (CPI) level.
- US SMID Equity Strategy - strategy seeks long-term capital growth and may offer downside protection through risk management. The strategy benchmark is the Russell 2500 Index.

NCA LLC tailors its strategies to a client's needs. NCA LLC works closely with clients to: 1) determine the risk and return objectives, 2) define the asset allocation, and 3) select specific securities and market sectors. NCA LLC assumes discretionary responsibility for all aspects of the day-to-day management and investment of the client's account.

Clients can impose investment guideline restrictions on investing in certain securities or types of securities.

NCA LLC may invest client assets in other types of securities, including fixed income securities, individual equity securities, options, futures, forward contracts and exchange traded funds (ETFs).

As of 12/31/2022, New Century Advisors, LLC managed \$ 3,825,808,464 in client assets on a discretionary basis. NCA does not manage assets on a non-discretionary basis.

## ITEM 5 - FEES AND COMPENSATION

NCA LLC charges a management fee based on assets under management. This fee is payable quarterly in arrears. If a client relationship terminates during the quarter, NCA LLC only bills the client for the time assets were under management. Below are NCA's basic fee schedules for the investment strategies that it manages. Fee schedules and minimum balances are individually negotiated in certain circumstances. For accounts that have less than \$25 million, the management fee may be higher than the stated schedules.

### Short -Duration Plus, Core Bond and US TIPS Strategies

.35 of 1% (.0035) per annum on the first \$50,000,000

.25 of 1% (.0025) per annum on the next \$50,000,000

.20 of 1% (.0020) per annum on the next \$50,000,000

.15 of 1% (.0015) per annum on the balance

### Multi-Asset Real Return Strategy

.85 of 1% (.0085) per annum

### Global Inflation Linked Strategy

.40 of 1% (.0040) per annum on the first \$25,000,000  
.30 of 1% (.0030) per annum on the next \$75,000,000  
.25 of 1% (.0025) per annum on the next \$100,000,000  
.20 of 1% (.0020) per annum on the next \$100,000,000  
15 of 1% (.0015) per annum on the balance

There is a minimum annual fee of \$100,000

### US SMID Equity Strategy

1% (0.0100) per annum on the first \$10,000,000  
.75 of 1% (.0075) per annum on the next \$40,000,000  
.65 of 1% (.0065) per annum on the next \$50,000,000  
.50 of 1% (.0050) per annum on the balance over \$100,000,000

NCA LLC remits a quarterly invoice to the client or client representative and typically does not directly deduct management fees from its client's accounts. In the case of individual investors in the US SMID Equity Strategy, management fees may be deducted directly from their investment account.

In addition to NCA LLC's investment management fee, clients pay brokerage and other transaction costs (as described in **Item 12 –Brokerage Practices**). Clients also pay charges to financial institutions and other third parties such as custodial fees, charges imposed directly by a mutual fund or exchange traded fund held in the account, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. NCA LLC encourages clients to obtain a complete schedule of these fees from their service provider before entering into any engagement. NCA LLC does not receive any portion of these other fees.

In a **wrap fee program**, the sponsor charges its clients a bundled asset-based fee for a package of investment services, such as brokerage, advisory, research, custody and management services. The sponsor is responsible for paying New Century Advisors, LLC's portion of the bundled fee for its investment management services. The fee New Century Advisors, LLC earns is negotiated separately with each sponsor and may vary from program to program. Further, the fees clients pay to the sponsor vary and New Century Advisors, LLC does not have any control or influence over the fees charged to clients by the sponsor.

Fees for managing wrap fee accounts are charged to the client by the wrap program sponsor as part of a bundled fee. New Century Advisors, LLC receives a portion of the bundled fee for investment management services directly from the wrap program sponsor. Fees are based on a percentage of the account's market value and may differ from New Century Advisors, LLC standard fee. On wrap accounts that the custodian bills, contributions, withdrawals and refunds on New Century Advisors, LLC's fees are determined by sponsor rules.

Clients may incur separate custodian, brokerage and transaction costs. Custodian fees are negotiated by the clients and their selected custodian(s).

New Century Advisors, LLC participation in wrap fee or similar programs may require acceptance of account sizes less than the generally preferred minimum. Account minimums may be subject to negotiation.

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

New Century Advisors, LLC is generally compensated on the basis of fees calculated as a percentage of a client's assets under management. In certain instances, however, NCA LLC is compensated under performance-based fee arrangements in compliance with SEC Rule 205-3 under the Investment Advisers Act of 1940. Some clients have entered into performance fee arrangements with NCA LLC. NCA LLC offers performance fee arrangements when allowed by law. A performance fee arrangement is a method of compensating an investment adviser on the basis of a share of the gains or appreciation of the assets under management. The fee structure consists of a base fee and a performance fee.

New Century Advisors, LLC can potentially receive greater fees from an account paying a performance-based fee than an account paying only an asset-based fee. This represents a potential conflict of interest because an incentive exists to favor accounts that are charged a performance-based fee or to allocate time, services or functions to clients paying performance-based fees. For example, an incentive exists to direct the best investment ideas to, or allocate or sequence trades in favor of, the account that pays the performance

fee. NCA LLC has written policies and procedures to ensure that its trading practices are fair to all clients and that no client or account is advantaged or disadvantaged over any other.

For the Intermediate Core Bond Strategy, the annual base fee is negotiable and paid quarterly in arrears. The performance fee, if earned, will be calculated as follows: A hurdle rate (gross of fees) must be achieved to become eligible for an incentive fee payment for the relevant calendar year. If the outperformance exceeds the hurdle rate versus the benchmark for the full calendar year, the incentive fee will equal 10% of the excess return above the hurdle rate, up to a maximum of 10 basis points total incentive fee for any given calendar year. The maximum compensation in any given calendar year would be 25 basis points. In the event that New Century's net of fee performance lags that of the benchmark for the relevant calendar year, then for purposes of calculating the incentive fee in the following calendar year, the performance hurdle will be revised upward by the amount of underperformance (in basis points).

## **ITEM 7 - TYPES OF CLIENTS**

NCA LLC provides investment advice to banking or thrift institutions, corporate and state pension and profit-sharing plans, charitable organizations, universities, private funds as well as high net-worth individuals and wrap fee accounts. NCA LLC is also a sub-advisor to investment managers and consultants.

NCA LLC's minimum account size is USD \$25 million for the fixed income and multi-assets strategies. The US SMID Equity strategy minimum account size is USD \$1 million. In certain circumstances, NCA LLC may accept lower account sizes. For certain accounts or strategies managed with less than the stated minimum, the investment management fee may be higher and a minimum fee may be imposed. New Century Advisors, LLC participation in wrap fee or similar programs may require acceptance of account sizes less than the generally preferred minimum. Account minimums may be subject to negotiation.

Clients may be required to establish foreign settlement accounts at their custodian as well as futures, options, and foreign exchange settlement accounts and capabilities. Additional information, such as Tax Identification Number, Form W-9 or Form W-8BEN, and CFTC Interim Compliant Identifiers (CICI) must be provided prior to trading on behalf of a client's account, if required.

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



NCA employs a team investment approach and uses both top-down and bottom-up analytics to generate investment ideas. For example, team members evaluate sectors from a fundamental, top-down perspective and also analyze relative value at the security level. Team members also closely follow trades and/or themes for exit and entry points. Investment strategies used to implement any investment advice given include long and short purchases of securities, short-term trading strategies, margin transactions, option writing, including covered options, long and short transactions in cash securities and financial futures.

In its analysis, NCA LLC uses financial databases containing current and historical business and financial statistics, financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses and filings with the SEC, and company press releases. NCA LLC also obtains estimates of future prospects for the economy and various market sectors. In addition to these vendor-purchased tools and websites, NCA LLC has developed several proprietary tools, which are used in both relative value analysis and risk management.

NCA LLC divides the fixed income market into the six risk factors listed below. NCA LLC evaluates the relative attractiveness of each risk factor and uses valuation models, technical factors and human judgment to create a client portfolio.

1. Interest Rate
2. Term Structure
3. Inflation
4. Volatility
5. Credit
6. Non-U.S.

For NCA LLC's US SMID Equity strategy that utilizes equity securities, NCA employs a fundamental, bottom-up research process that is enhanced with top-down thematic analysis. The portfolio will typically hold 25-45 holdings and seeks to capitalize on undiscovered, misunderstood and mispriced small/mid capitalized publically traded equities.

NCA LLC manages risk within a strategy using a proprietary tracking model that calculates portfolio risk. The output lists: 1) the relative risks or tracking error compared to the benchmark, 2) the benefits of diversification, 3) the top portfolio risks, and 4) the distribution of portfolio returns based on history. This output helps NCA LLC see the risks the portfolio contains and how much of the portfolio's value is at risk. Scenario analysis that includes modeling the risk inherent in potential portfolio changes and size exposures is also conducted.

NCA LLC uses derivative instruments to build and manage portfolios. Specifically, NCA LLC purchases treasury, non-US sovereign, and money market futures, as well as exchange-traded options on these futures. NCA LLC believes that derivative instruments increase manager flexibility by allowing the management of exposures at a more granular level. Further, NCA LLC utilizes these instruments to manage interest rate, yield curve, inflation and volatility risk. All of the abovementioned derivatives are highly liquid, exchange-traded instruments and are not subject to counter-party risk. NCA also utilizes forward contracts on currencies. These contracts are highly liquid, but subject to counterparty risk. NCA mitigates the counterparty risk by utilizing more than one counterparty with a minimum credit rating of A-.

*Additional Risk Factors:*

*Interest Rate Risk.* Changes in interest rates can affect the value of an investment in fixed-income instruments. Increases in interest rates may cause the value of debt investments to decline. Client accounts may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

*Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact a client account in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Adviser

may have constructed for these investments, resulting in a loss to a client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

*General Credit Risk.* Client accounts are subject to significant credit risk (i.e., the risk that an issuer or borrower will default in the payment of principal and/or interest on an instrument) in light of its investment strategy. Credit risk also includes the risk that a counterparty to a derivatives instrument (e.g., a swap counterparty) will be unwilling or unable to meet its obligations (see “— Counterparty Risk” below). Financial strength and solvency of an issuer or borrower are the primary factors influencing credit risk. In addition, degree of subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Investments in stressed or distressed companies inherently have more credit risk than do similar investments in other companies. The degree of credit risk associated with any particular portfolio investment or any collateral relating thereto may be difficult or impossible for the Investment Adviser to determine within reasonable standards of predictability. The Investment Adviser also expects to utilize various third parties that hold client assets (such as the custodian) in implementing a client's investment strategy, and the client will therefore also be subject to credit risk with respect to such entities.

In some cases, the credit risk of some of a client's investments may be broadly gauged by the credit ratings of such investments. However, ratings are only the opinions of the agencies issuing them, may change less quickly than relevant circumstances, are not absolute guarantees of the quality of the rated securities and are subject to downgrade. Credit ratings and ratings agencies have recently been criticized for ratings which did not fully reflect the risks of certain securities or which did not reflect such risks in a timely manner. Additionally, the Investment Adviser will rely on its own independent analysis of the credit quality and risks associated with individual securities considered for a client account, rather than relying on ratings agencies or third-party research. Therefore, the Investment Adviser's capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that the Investment Adviser will be successful in this regard.

*Portfolio Turnover.* The Investment Advisor will not place any limit on the rate of portfolio turnover, and portfolio investments may be sold or otherwise disposed of without regard to the time they have been held. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate, may act to reduce a client's investment gains or create a loss for investors and may result in increased tax costs for investors depending on the tax provisions applicable to such investors.

*Reinvestment Risk.* Income from the a client’s portfolio will decline if and when the Investment Advisor invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio’s current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Investment Advisor to invest in lower-yielding securities.

*Due Diligence Risk.* When conducting due diligence and making an assessment regarding an investment, the Investment Adviser will rely on the resources available to it, including internal sources of information as well as information provided by third parties. The due diligence process may at times be required to rely on limited or incomplete information. The Investment Adviser expects to select investments in part on the basis of information and data filed with various government regulators and publicly available or made directly available by prospective portfolio companies or third parties. The Investment Adviser expects that it will not be in a position to confirm the completeness, genuineness or accuracy of such information and data, and will therefore be dependent upon the integrity of the management of the entities filing such information and of such portfolio companies and third parties providing such information. In addition, there can be no assurance that any consultants or experts engaged by the Investment Adviser will accurately evaluate such investments. Investment analyses and decisions by the Investment Adviser may be undertaken on an expedited basis to enable the Investment Adviser to take advantage of investment opportunities with accelerated timelines. In such cases, the available information at the time of an investment decision may be limited, inaccurate and/or incomplete. Accordingly, the Investment Adviser cannot guarantee that its due diligence investigations will reveal or highlight all relevant facts that may be necessary or helpful in evaluating investment opportunities.

*Counterparty Risk.* Client accounts are exposed to counterparty risk when trading on a “delivery versus payment” basis, and at times a more significant level of counterparty risk to the extent it (among other things) uses over-the-counter derivatives, listed derivatives, and futures, enters into repurchase agreements, trades agency mortgage-backed securities in the To-Be-Announced (“**TBA**”) market, lends its portfolio securities or allows an over-the-counter derivatives counterparty to retain possession of collateral and/or other assets. A client account may experience a loss to the extent certain transactions have increased in value but the counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption; in addition, any such events may result in the complete or partial loss of any collateral posted as margin.

While counterparty risk is always present in each transaction, it can also be more pronounced during unusually adverse market conditions or during periods of market volatility. This may result in, among other things, a client account having a greater need for

cash or securities to secure the account's increased mark-to-market exposure in connection with the derivatives transactions in its portfolio.

There can be no assurance that a counterparty will be able or willing to make timely settlement payments or otherwise meet its obligations, especially during unusually adverse market conditions. A default of a counterparty may cause trades with such counterparty not to settle and therefore result in a loss. The Investment Advisor typically may only close out over-the-counter transactions with the relevant counterparty, and may only transfer a position with the consent of the particular counterparty.

*Projections.* The Investment Advisor may rely upon projections, forecasts or estimates developed by the Investment Adviser or an issuer in which a client is invested concerning the issuer's future performance and cash flow. Projections, forecasts and estimates are forward-looking statements and are based upon certain assumptions. Actual events are difficult to predict and are beyond the Investment Advisor's control. Actual events may differ from those assumed. Some important factors which could cause actual results to differ materially from those in any forward-looking statements include changes in interest rates; domestic and foreign business, market, financial or legal conditions; leverage amounts and costs; and the degree to which a client's investments are hedged and the effectiveness of such hedges. Accordingly, there can be no assurance that estimated returns or projections can be realized or that actual returns or results will not be materially lower than those estimated therein.

*Assets Believed to Be Undervalued or Incorrectly Valued.* Securities that the Investment Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Investment Adviser anticipates. As a result, a client may lose all or substantially all of its investment in any particular instance.

*Debt Downgrades.* US Government debt and other high quality government and corporate debt is often rated AAA by the major rating agencies. If the rating agencies lower the rating on any debt held by a client, that lowered rating may have an adverse impact on the value of the Fund's assets.

*Below Investment Grade Debt.* Government and corporate bonds or other fixed-income securities that are rated below investment grade trade at wider bid/ask spreads than higher-rated debt securities. Below investment grade securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. These securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the

issuer's assets. Securities with below investment grade ratings may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Borrowers that issue such securities may be highly leveraged or face other financial obstacles or adverse conditions and may not have available to them more traditional methods of financing.

The Investment Advisor may invest in particular obligations of an issuer that are generally trading at significantly higher yields than had been historically typical of the issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

*Corporate Debt.* Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, a client's account may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.* the principal owed to a client's account in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, a client may experience substantial losses.

*Options, Swaps and Other Derivative Instruments.* The Investment Advisor may invest in options and derivative instruments, including buying and writing "uncovered" puts and calls. The prices of many derivative instruments, including many options and swaps, are highly volatile. The value of options and swap agreements also depends upon the price of the securities, currencies or other assets underlying them. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. Additionally, a client's account is subject to the risk of the

failure of any of the exchanges on which its positions trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities, currencies or other assets. Accordingly, options on highly volatile securities, currencies or other assets may be more expensive than options on other investments.

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument or asset on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument or asset at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument or asset at the exercise price.

If a put or call option purchased by the Investment Advisor were permitted to expire without being sold or exercised, the client would lose the entire premium it paid for the option. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying instrument or asset caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold to the client at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying instrument or asset caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold by the Investment Advisor at a lower price than its current market value.

Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks. In particular, the writer of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument or asset above the exercise price of the option. This risk is enhanced if the instrument or asset being sold short is highly volatile, and there is a significant outstanding short interest. These conditions exist in the stocks of many companies. The instrument or asset necessary to satisfy the exercise of the call option may be unavailable for purchase except at much higher prices. Purchasing instruments or assets to satisfy the exercise of the call option can itself cause the price of the instruments or assets to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, the sale of an uncovered call option could result in a loss by the Fund of all or a substantial portion of its assets.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

*Non-Performing Nature of Debt.* Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

*Sovereign Debt.* Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued including securities that the Investment Adviser believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

*Structured Notes.* Structured notes, variable rate mortgage-backed securities and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

*Hedging Transactions.* Investments in financial instruments such as forward contracts, options, commodities, credit default swaps and interest rate swaps, caps and floors, and other derivatives are commonly utilized by investment funds to hedge against fluctuations in the relative values of its portfolio positions as a result of changes in currency exchange rates, interest rates and/or the equity markets or sectors thereof. Any hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for the Fund to hedge against a fluctuation at a price sufficient to protect the Fund's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. For example, the cost of options is related, in part, to the degree of volatility of the underlying instruments or assets. Accordingly, options on highly volatile instruments or assets may be more expensive than options on other instruments or assets and of limited utility in hedging against fluctuations in their prices.



Unless required under the Investment Guidelines outlined by a client, the Investment Adviser is not obligated to establish hedges for portfolio positions and may choose not to do so. To the extent that hedges are implemented, their success is dependent on the Investment Adviser's ability to correctly predict movements in the direction of currency and interest rates and the equity markets or sectors thereof.

*Use of Custodians.* The assets owned by a client will be held by one or more custodians, which may be unable to safeguard assets and carry on their respective duties and obligations due to bankruptcy or a failure to comply with applicable rules. Bankruptcy of a custodian could result in a loss of all or a portion of the assets held by such custodian or the termination of outstanding transactions. Also, if there is a market-wide liquidity or credit problem affecting financial institutions, the Investment Advisor may not be able to unwind transactions or withdraw assets from troubled counterparties.

*Limited Liquidity of Certain Investments.* It is possible that from time to time a client's investments in certain assets, including asset-backed securities and non U.S. corporate debt, will trade in thin or illiquid markets. In addition, certain debt markets can become less liquid when there is financial stress within the general marketplace. Other investments may experience similarly illiquidity. Therefore, if a client is facing a situation in which it needs to liquidate assets, the price received on some assets might be significantly less than what would be considered their inherent value.

*Risk of Non-U.S. Investments.* The Investment Advisor may invest in securities or obligations collateralized by assets located outside of the United States, or of issuers organized under the laws of jurisdictions other than, or the principal place of business or a substantial portion of the assets or business operations of which is located outside of, the United States. Such investments, in addition to bearing the risks generally discussed herein, are also subject to fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, political and economic instability in certain geographic locations, less developed securities markets, difficulties in managing international operations, potentially adverse tax consequences, different or less rigorous accounting, auditing and financial reporting standards, practices and requirements than those in the United States, the possibility of repatriation restrictions or costs, enhanced accounting and control expenses and the burden of complying with a wide variety of foreign laws.

*Emerging Markets Investments.* Investing in emerging markets involves not only the risks described above with respect to non-U.S. investments, but also other risks, including exposure to economic structures that are generally less diverse and mature than, and to political systems that can be expected to have less stability than, those of developed countries. Other characteristics of emerging markets that may affect investment include certain national policies that may restrict investment by foreigners in issuers or industries

deemed sensitive to relevant national interests and the absence of developed structures governing private and foreign investments and private property. Although the legal systems in emerging market countries now typically recognize basic commercial relationships and rights, many of these countries lack the extensive body of law and practice normally encountered in business environments within the United States. Laws and regulations in emerging market countries affecting United States business and investment, particularly those involving taxation, foreign investment and trade, can change quickly and unpredictably in a manner far more volatile than in the United States or other developed market economies. Additionally, attempts at judicial enforcement of existing laws, judgments or arbitral awards will likely encounter significant delay and difficulty, and courts might not be totally impartial in adjudicating disputes between foreigners and local persons or companies.

The typically small size of the markets of securities of issuers located in emerging markets and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities. In comparison to securities markets in developed countries, securities markets in developing countries may be substantially less liquid, and may have greater volatility, greater fluctuations in the rate of exchange between currencies, greater costs associated with currency conversions, greater transaction costs and greater counterparty risk. The typically small size of the markets of securities of issuers located in emerging markets and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities. In comparison to securities markets in developed countries, securities markets in developing countries may be substantially less liquid, and may have greater volatility, greater fluctuations in the rate of exchange between currencies, greater costs associated with currency conversions, greater transaction costs, and greater counterparty risk.

Additionally, rising interest rates, combined with widening credit spreads, could negatively impact the value of emerging market debt and increase funding costs for foreign issuers. In such a scenario, foreign issuers may not be able to service their debt obligations, which could reduce the value of such debt and also potentially reduce liquidity in such markets.

*Currency Exchange Risk.* Investments may be denominated in, or linked to, currencies other than the U.S. dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. dollar. Client accounts may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between such currencies and the U.S. dollar. A change in the value of a non-U.S. currency relative to the U.S. dollar will result in a corresponding change in the dollar value of a client's assets denominated in that non-U.S. currency as well as the dollar value of non-U.S. currency held

by a client. Changes in currency exchange rates may also affect the value of dividends and interest earned and gains and losses realized on the sale of securities held by a client.

The Investment Advisor may enter into forward currency exchange contracts or invest in currency futures contracts and options on currencies to manage a client's exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another country. A forward currency exchange contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces the a client's exposure with respect to its investment to changes in the value of the currency it will deliver and increases its exposure to changes in the value of the currency it will receive for the duration of the contract. The effect on the value is similar to selling securities denominated in one currency and purchasing securities denominated in another currency. A contract to sell foreign currency would limit any potential gain which might be realized if the value of the hedged currency increases. The Investment Advisor may enter into these contracts to hedge against currency exchange risk, to increase exposure to a currency or to shift exposure to currency fluctuations from one currency to another.

The Investment Advisor is not obligated to engage in any currency hedging operations, unless mandated by a client's investment guidelines, and there can be no assurance that the Investment Advisor will engage in such transactions at any given time or from time to time. Additionally, suitable hedging transactions may not be available in all circumstances, or such transactions may not be successful and may eliminate any chance for a client's account to benefit from favorable fluctuations in relevant currencies. The Investment Advisor may use one currency (or a basket of currencies) to hedge against adverse changes in the value of another currency (or a basket of currencies) when the Investment Adviser believes that exchange rates between the two currencies are positively correlated.

*Market Making by Dealers.* The value of fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the Fund's profitability or result in losses.

*Lack of Insurance.* Although some debt instruments held by the Fund are guaranteed by the U.S. government, most of the Fund's portfolio assets will not be insured by any government

or private insurer. Therefore, in the event of the insolvency of a depository or custodian, a client may be unable to recover some of its funds or the value of its securities so deposited.

The principal risks of investing in the US SMID Equity strategy include: *Equity securities risk, Sector Risk, Non-diversification Risk, Effects of Compounding and Market Volatility Risk, Market Risk, Counterparty Risk, and Rebalancing Risk* which can increase volatility. The US SMID Strategy may also invest in derivatives (options, futures), which are often more volatile than other investments and may magnify the Strategy's gains or losses.

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

Cybersecurity Risk: Although NCA LLC takes measures to decrease the risks associated with a cybersecurity event, the computer systems, networks and devices used by NCA LLC and its service providers potentially can be breached. A client could be negatively impacted as a result of a cybersecurity breach. A cybersecurity breach could result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information of clients. A cybersecurity breach may also cause disruptions and impact business operations potentially resulting in a financial loss to a client.

## TEM 9 - DISCIPLINARY INFORMATION

NCA LLC and its employees have no legal or disciplinary events to disclose.

## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Eric Patlovich, Portfolio Manager for New Century Advisors, LLC, serves on the board of directors for Agriculture Banking Corporation located in Paxton, Illinois and is a member of the Asset/Liability Committee of the Frederick Community Bank located in Paxton and Cissna Park, Illinois.

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

Employees must follow the Code of Ethics and Standards of Professional Conduct promulgated by the CFA Institute. In addition, NCA LLC has a Code of Ethics that all employees must follow. The guiding principal of NCA LLC's Code of Ethics is that the clients' interests must always come first. NCA has also adopted procedures regarding the

use of material non-public information and procedures to control access to sensitive information, including restricting access to computer files that contain non-public information.

NCA LLC employees are permitted to invest and transact in certain of the same securities or related securities (e.g., warrants, options, or futures) that it purchases in client accounts. To address this conflict of interest, the code of ethics states:

- Employees cannot transact for their own account before considering their fiduciary obligations to their clients.
- If an employee knows that NCA LLC is transacting in (or considering transacting in) any security on behalf of a client, the employee may not transact in the same security.

In addition, every employee provides NCA LLC with a record of his/her personal securities holdings and transactions. NCA LLC reviews this information and makes sure that an employee's holdings and transactions do not conflict with the best interests of clients. These records are reviewed by the Chief Compliance Officer for instances of trading practices that harm NCA's clients, such as scalping, front-running or taking an investment opportunity from a client for an employee's own benefit. A copy of the NCA LLC's Code of Ethics is available to any client or prospective client upon request.

Securities purchased for clients will be held in the clients' names with the issuer and/or with a registered broker/dealer and/or custodian. Neither NCA nor any of its officers or employees has the authority to gain access to client holdings.

## ITEM 12 - BROKERAGE PRACTICES

NCA LLC seeks to execute client transactions at the most favorable and reasonable commission rates in relation to the benefits the clients' receive. NCA LLC chooses broker-dealers to execute client transactions based on a number of factors, including: (1) the price of the securities which they offer, (2) the value and quality of their services, and (3) their professional capabilities (including use of capital, clearance and settlement procedures, market familiarity, integrity and reliability).

Broker-dealers provide NCA LLC with investment research products and/or services that assist in the investment decision-making process (i.e., soft dollar benefits). Although NCA, LLC does not have any formal soft dollar agreements in place, NCA LLC receives security, sector, market and economic research reports and security pricing services from broker-dealers. This creates a conflict of interest since there is an incentive to select or

recommend a broker-dealer that provides these benefits that NCA LLC would otherwise have to pay for. NCA LLC uses these benefits to service all of its client accounts and does not allocate soft dollar benefits to client accounts in proportion to the commissions and fees the accounts generate.

The value of any products, research and services given to NCA LLC are not factors considered in selecting broker-dealers and determining the reasonableness of their commissions. Further, NCA LLC does not cause clients to pay commissions (or markups or markdowns) higher than what other broker-dealers charge in return for soft dollar benefits.

If it is consistent with best execution and the terms of the client's agreement, NCA LLC aggregates client transactions. Each client that participates in an aggregated order participates at the average share price for all client transactions in that security on a given business day. In addition, clients share transaction costs pro-rata based on their participation in the transaction. NCA LLC may allocate a partially filled order pro-rata based on the initial allocation, however, if circumstances prevent a pro-rata allocation (minimum purchase requirements, for example), NCA LLC will use additional methods to allocate partially filled orders. If all client accounts receive fair and equitable treatment, NCA LLC could allocate the order on a basis different from the initial allocation.

NCA LLC permits clients to direct brokerage. However, NCA LLC only directs brokerage if it is able to obtain the most favorable execution of all client transactions. When a client directs brokerage, it affects NCA LLC's ability to negotiate commissions and to include the client's account in aggregated transactions. A client that is not included in an aggregate transaction will not receive benefits such as receiving the average price or transactional costs.

NCA LLC may effect cross transactions between client accounts. This means that NCA LLC arranges for one client to sell securities to another client. NCA LLC effects these cross transactions through a third-party broker-dealer who determines the respective purchase and sale price based on the market or as an internal cross transaction consistent with our applicable policies and procedures.

When managing assets for wrap account clients, New Century Advisors, LLC may utilize the wrap sponsor but primarily trades away from the wrap program sponsor which could result in the client being charged additional fees. Transactions executed through a wrap sponsor may be less favorable in some respects than New Century Advisors, LLC clients whose trades are not executed through the wrap sponsor. This is because we may not have the ability to negotiate price or take advantage of combined orders or volume discounts. New Century Advisors, LLC may be constrained in obtaining best execution for wrap program clients by sending trades to the wrap program sponsor.

## ITEM 13 - REVIEW OF ACCOUNTS

A Portfolio Manager is responsible for performing ad hoc (generally daily) reviews of account holdings, cash in/outflows, investment guideline compliance, sector reviews and daily market movement effects on the strategies. On a monthly basis, a Portfolio Manager or Investment Analyst performs a formal review of the account to ensure that the account is in compliance with the current investment strategy and the account's investment guidelines. The Portfolio Manager or Investment Analyst documents this evaluation in the client's file. The evaluation is also reviewed by the Compliance Officer.

Direct clients (i.e. those who are not part of a sponsored wrap program or similar program) can elect to receive valuation and transaction statements at the end of each month or quarter. Standard reports that NCA LLC provides to clients include:

1. Current holdings report
2. Monthly transactions report
3. Current Cash Balance report
4. Custodian vs. New Century Advisors Holdings Reconciliation report
5. Monthly performance

Clients should also receive monthly or quarterly statements directly from their qualified custodian. Direct clients (i.e. those who are not part of a sponsored wrap program or similar program) should compare the account statements they receive from their qualified custodian with those provided by NCA LLC.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

NCA LLC receives soft dollar benefits from broker-dealers, as described in Item 12 above. NCA LLC does not receive any other economic benefit from a non-client for providing investment advisory services.

NCA LLC and its employees do not compensate any outside person or third-party firm for client referrals.

NCA LLC currently does have arrangements where inside representatives receive a portion of some or all of their compensation in the form of cash referral fees. These fees would generally be calculated as a percentage of the investment advisory fees generated from the assets referred to by the party.

## ITEM 15 - CUSTODY

New Century Advisors, LLC does not offer custody services. Clients are responsible for maintaining a custody account for their portfolios with custodians of their own choosing. Clients are responsible for all fees charged by the custodian. The custodian will provide the client and NCA LLC with monthly holdings and transaction reports. The custodian holds the securities, collects the payments, and maintains the official books and records of client portfolios. NCA LLC 's client statements reflect transactions on a contractual basis. On a monthly basis, the team reconciles portfolio activity to the custodian's statements. NCA LLC statements may vary from custodial statements based on reporting dates, accounting procedures, and/or valuation methodologies. Clients should carefully review both the portfolio statements they receive from NCA LLC and those they receive from their custodian.

All clients should receive monthly or quarterly statements directly from their custodian.

## ITEM 16 - INVESTMENT DISCRETION

NCA LLC only manages client assets on a discretionary basis. Clients specify limitations on NCA LLC's trading authority in their written investment policy guidelines. Limitations can include, but are not limited to, restrictions on investments of particular issuers, security characteristic/quality limitations, etc. Clients can change these guidelines by providing written notice to NCA LLC.

Before NCA LLC provides investment advisory services, clients must sign an investment management agreement and acknowledge mutually agreed upon investment policy guidelines. Clients also sign a limited power of attorney granting NCA LLC trading authority and allowing NCA LLC to access a client's custodian's electronic data feed for reporting purposes.

Clients may be required to establish foreign settlement accounts at their custodian as well as futures, options, and foreign exchange settlement accounts and capabilities. Additional information, such as Tax Identification Number, Form W-9 or Form W-8BEN, and CFTC Interim Compliant Identifiers (CICI) must be provided prior to New Century Advisors, LLC trading on behalf of a client's account, if requested.



## ITEM 17 - VOTING CLIENT SECURITIES

NCA LLC votes proxies in a manner that serves the best interests of its clients. NCA LLC's proxy voting policies and procedures address the following common proxy issues: External Auditors, Board of Directors, Proxy Contests and Corporate Defenses, Corporate Governance Provisions, Capital Structure, Executive Compensation/Employee Consideration, State of Incorporation, Mergers and Corporate Restructuring, and Social Issues. Under certain circumstances, NCA LLC refrains from voting proxies taking into consideration, among other reasons, whether clients continue to hold the securities on the voting date and whether NCA LLC believes voting would be inappropriate given the cost of voting the proxy and the anticipated benefit to clients. In addition, upon receiving a written client request, we may vote proxies for that client in a particular manner overall.

In a situation where there is a conflict of interest in the voting of proxies, NCA LLC takes steps to ensure that its proxy voting decisions are in the best interest of its clients and are not the product of such conflict. A conflict of interest occurs due to business or personal relationships that NCA LLC maintains with persons having an interest in the outcome of votes.

If a client does not authorize NCA LLC to vote client securities, clients will receive their proxies or other solicitations directly from the custodian or transfer agent. Clients may contact NCA LLC directly with any questions about a particular solicitation.

Clients can obtain a copy of NCA LLC's proxy voting policies and procedures upon request. Also upon request, clients can obtain information regarding how NCA LLC voted proxies with respect to their securities.

## ITEM 18 - FINANCIAL INFORMATION

NCA LLC does not require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance. Therefore, we have not included a balance sheet for our most recent fiscal year. In addition, NCA LLC is financially capable of meeting all contractual commitments to its client. NCA LLC has not been subject of a bankruptcy petition.