



Form ADV Part 2A: Firm Brochure

1492 Capital Management, LLC  
309 N. Water Street, Suite 210  
Milwaukee, WI 53202

Telephone: 414-276-1492

[www.1492capitalmanagement.com](http://www.1492capitalmanagement.com)

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This brochure provides information about the qualifications and business practices of 1492 Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 414-276-1492 or write to us at the address provided above. 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 1492 Capital Management, LLC also is available on the firm's website [www.1492capitalmanagement.com](http://www.1492capitalmanagement.com) or the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 148566. Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

**Item 2 Material Changes**

1492 Capital Management, LLC (“1492CM”) updated their Form ADV Part 2A brochure (the “Brochure”) on March 30, 2023 to fulfill the annual amendment requirement.

The prior update to 1492CM’s Form ADV Part 2A was on March 28, 2022. The following summary discusses the material changes that 1492CM made to the Brochure since March 28, 2022, the date of the last annual update to the Brochure.

- Item 4. Advisory Business was updated to reflect assets as of December 31, 2022.

A client should note the foregoing summary only discusses material changes made to the Brochure since March 28, 2022. The updated Brochure contains other non-material changes not listed above.

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**Item 4            Advisory Business**

1492 Capital Management, LLC began conducting business in 2008.

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

- Joseph A. Frohna, Principal and Portfolio Manager
- The Hawthorne Partners, Inc.

1492 Capital Management, LLC offers the following advisory services to our clients:

Portfolio Management: Our firm primarily provides discretionary asset management services to individuals, corporations, foundations, trusts, and other separate accounts using one of our small cap equity investment strategy models. We may manage client assets pursuant to an approach other than one of our primary investment strategies as requested by the client and agreed upon by us.

For our separate account clients, we manage the advisory accounts on a discretionary basis which affords 1492 Capital Management the capacity to direct the investment and reinvestment of assets in the client's separate account without first consulting with that client. Account supervision is guided by the client's written investment management agreement policy (i.e., small cap growth, small cap value, small cap core alpha, small cap dynamic hedge, or wealth management). Separately managed client accounts may be part of a wrap program where the Program Sponsor selects 1492 Capital Management to serve as the adviser and to manage the wrap account according to the selected portfolio management strategy. 1492 Capital Management is compensated with a portion of the sponsor's program fee. Those fees will differ from the fee schedule in Item 5.

Separately managed account clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors as may be part of a socially responsible focus, for example. Once the client's portfolio has been established, we review the portfolio at least quarterly, and, rebalance the portfolio on an as needed basis to comply with the internal model portfolios representing the distinct strategy.

Our investment recommendations will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Options and warrants
- Futures contracts on stock indices
- Initial public offerings
- Corporate / government / municipal bonds

Wealth Management: We also offer wealth management strategies where a client's portfolio may be allocated among exchange traded funds ("ETFs"), mutual funds, one of our proprietary small cap strategies, equities and other investments as part of an overall wealth management strategy. Investments used in a wealth management strategy are selected based upon a number of factors, including an evaluation of performance history, management, total assets, expense ratio, volatility, turnover ratio, duration of track record, dividend yield and sales loads.

For our wealth management clients, we manage the accounts on a discretionary basis which affords 1492 Capital Management the capacity to direct the investment and reinvestment of assets in the client's account without first consulting with that client, guided by the general guidelines which are established at the inception of the management relationship in cooperation with the client. These general guidelines cover such things as the relative proportion of debt securities and equity securities, the degree of risk which the client wishes to assume and the types and amounts of securities to constitute the portfolio, including any restrictions imposed by the client. 1492 Capital Management endeavors to manage the portfolio in accordance with these guidelines.

Where client assets are invested in mutual funds, ETFs, or other investment vehicles, the client will incur both a direct management fee payable to the Adviser and an indirect management fee payable through the third party investment vehicle.

Portfolio Management Strategy Descriptions: Our firm provides portfolio management services to clients primarily using model equity portfolios. Each model equity portfolio is designed to meet a particular investment goal and represent a specific market segment within the domestic equity market.

#### Small Cap Growth Strategy

This strategy acquires primarily domestic and foreign equities listed in the U.S. that will generally have a market capitalization similar to those in the Russell 2000 Index at the time of purchase.

We utilize a bottom-up fundamental process in conjunction with bottom-up derived themes. The key tenets of stocks in the portfolio are as follow: prospects for 15% to 20% top and bottom line growth over the next 12 to 18 months; what we believe to be a superior and defensible business model; a management team with a track record of creating shareholder value; self-funding growth through free cash flow generation; an attractive valuation on both an absolute basis and relative to its industry peers; higher than peer levels of inside ownership; and, a strong balance sheet.

Theme-based investing is used to emphasize industries and/or sectors of the economy that may have the opportunity for better growth prospects as a result of an economic tailwind. Themes are derived as a result of the many face-to-face company management meetings our portfolio team conducts each year. Once a theme is identified, we try to find as many companies that could be beneficiaries of this theme as possible. We then perform fundamental analysis and additional management due diligence. Only companies with what we believe to have better business models, management teams, and valuations are acquired for the portfolio.

Generally, up to 60% of the portfolio will be invested in themes. The remaining portion of the portfolio is individual stocks where a company advantage has been identified. We believe outperformance within the small cap arena is first a function of stock selection. Also crucial, is recognizing when there is a change in the company's probability of sustaining its growth profile. This change can be the result of altering market forces, a drain on the company's resources, or poor execution by management. Small stocks may carry significant downside risk so it is important to identify potential problem situations as early as possible. Our process includes risk management that incorporates a daily sell alert screen that identifies stocks which are not performing in line with their peers and the rest of the market as defined by a benchmark index. We also use technical analysis as a supplemental tool to identify those stocks whose price is acting poorly.

This strategy's performance is measured against the Russell 2000 Growth Index.

#### Small Cap Value Strategy

This strategy acquires primarily dividend paying domestic equity and foreign equities listed in the U.S. that will generally have a market capitalization similar to those in the Russell 2000 Index at the time of purchase.

We utilize a bottom-up fundamental process in conjunction with bottom-up derived themes. The investment process begins with individual company meetings. We will meet with company management teams in our offices, and at investment conferences. We focus on the company's management, return on capital, revenue and earnings growth prospects, a company's competitive advantages, financial condition and valuation.

Fundamental research includes a valuation process we refer to as "triangulating" a target price. This method incorporates financial ratios from the balance sheet, income and cash flow statements. Valuation criteria include: price to tangible book; high cash balances; low debt; and, cash flow generation from improved asset utilization. In addition, we emphasize using normalized earnings metrics, and enterprise value to sales and to EBITDA ratios to discover the earnings power of the balance sheet. The research team may also conduct channel checks with customers and vendors as well as study SEC filings and proxy statements. The portfolio may have as much as 40% of its holdings tied to themes. Once a theme is identified, we try to find companies that may benefit from the general theme itself but are more likely to be less followed. The companies with business models, management teams, and valuations we find attractive are purchased for the portfolio. The theme is expected to act as a catalyst for growth and provide an advantage to both the company's performance and the performance of its stock.

This strategy's performance is measured against the Russell 2000 Value Index.

#### Small Cap Core Alpha Strategy

This strategy typically combines 25 to 35 stocks which have already been selected for either the Small Cap Growth or Small Cap Value strategies described above.

The selection process for the Small Cap Core Alpha strategy, therefore, starts by opportunistically picking stocks, of which approximately half come from each the Small Cap Growth portfolio and the Small Cap Value portfolio, that have what we believe are favorable risk-to-reward metrics at that time.

As with the Small Cap Growth and Small Cap Value strategies, individual company research leads us to develop themes as we look horizontally at competitors and vertically at the supply chain for other companies experiencing a similar tailwind as the original target company. Our thematic approach enables us to:

- Focus our research efforts quickly on industries we believe have great promise
- Maximize the higher growth segments of the economy in our portfolio
- More nimbly enter and exit positions due to the diversification the thematic approach provides

Theme-based investing is used to emphasize areas of the economy that are performing better than others. Themes are generally driven from a bottom-up process as the investment team gathers real-time data points from numerous one-on-one management meetings each year. Once a theme is identified the team tries to find as many companies that will be beneficiaries of this theme. Then, only companies with what we believe have the best overall business models, management teams, and valuations are placed in the portfolio. As the theme plays out, the team would expect the general theme to perform better than the index and the selected stocks within the theme to outperform the overall theme. This process is overlaid with a top-down assessment of current and anticipated economic conditions and the impact on the company in question.

The strategy is measured against the Russell 2000 Index.

Small Cap Dynamic Hedge Strategy

This strategy is an alternative small cap strategy which combines a core portfolio typically of 25 to 35 of what we believe are the most compelling small cap growth and small cap value stocks selected with the same methodologies described in the strategies above, together with sector-based, volatility-based and/or inverse exchange trade funds (“ETFs”) and/or options and futures contracts. The ETFs, options and futures (collectively referred to as “hedging vehicles”) are traded tactically alongside the core holdings to provide downside market protection through the use of hedging strategies and/or to generate alpha for the portfolio.

The strategy seeks long term capital appreciation through investing in a portfolio of equity securities and combining a dynamic tactical overlay. The strategy intends to pursue its investment objective by investing in companies with small market capitalizations, which we currently define as in line with the Russell 2000 Index. The gross equity exposure under normal market conditions will be greater than 70% of the net assets in equity investments of small market cap companies. The net equity exposure may be lower or higher depending on market conditions.

The net exposure to equities may be adjusted based upon management’s overall assessment of risk and opportunity in the market and the portfolio, including the strategy’s cash position. When management perceives the strategy's equity risks to be low and opportunities high, and depending upon the strategy's cash positions, the strategy could have a low to zero exposure to hedging vehicles. Conversely, when management perceives the strategy's equity market risk to be high, and opportunity low, it will reduce the net exposure by effecting a dynamic hedge through the use of hedging vehicles or take long positions in inverse ETFs, for example. The portfolio managers can hedge up to 100% of the strategy's long equity exposure. Generally, it is the strategy's objective to maintain net exposure between 100% and 0% net long. For example, if the portfolio invests 50% of its net assets in long equity positions and 50% of its net assets in short positions, the portfolio is “0% net long.” These investment strategies may reduce the risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements; however, such strategies also may reduce the opportunity for gain by offsetting the positive effect of favorable price movements.

As of December 31, 2022, we managed \$174.9 million of client assets on a discretionary basis and \$0 client assets on a non-discretionary basis.

**Item 5 Fees and Compensation**

The annualized fee for Small Cap Growth and Small Cap Value Portfolio Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
First \$25 million	1.00%
Second \$25 million	0.90%
Assets in excess of \$50 million	0.80%

The annualized fee for Small Cap Core Alpha Portfolio Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
First \$25 million	1.25%
Assets in excess of \$25 million	1.00%

The annualized fee for the Small Cap Dynamic Hedge Portfolio Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
No Limit (Flat)	1.95%

The annualized fee for the Wealth Management Services will be charged as a percentage of assets under management according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
No Limit (Flat)	1.00%

The fees are billed in arrears at the end of each calendar quarter. Fees are calculated using the month end value of the client's account at the end of each calendar month and applying the management fee rate to that value. The calculated amounts for the three months during the quarter just ended are summed to compute an aggregate quarterly fee. Fees will be prorated for a partial month if the account is opened or closed during the month. Also, fees will be deducted from the client's account in accordance with the client authorization in the Client Services Agreement unless some other payment method is agreed upon. 1492 Capital Management, LLC does not allow clients to prepay fees.

Limited Negotiability of Advisory Fees: Although 1492 Capital Management, LLC has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, reports, among other factors. The specific annual fee schedule will be identified in the contract between us and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

Additional Fees and Expenses: In addition to our advisory fees, clients incur custodian, brokerage and transaction fees. We may invest in open-end mutual funds and exchange-traded funds ("ETF's") or similar investments on behalf of client accounts. Where client assets are invested in these types of vehicles, there will be an indirect management fee payable through the third party investment vehicle. Please refer to the "Brokerage Practices" section (Item 12) below. Clients whose assets are managed pursuant to a performance fee arrangement are also responsible for those fees according to the methodology described in the advisory agreement.

Model Portfolio Management Services: 1492 Capital Management also provides portfolio management models to model portfolio program sponsors and in so doing is paid a fee that is less than the fee schedules listed above. In these arrangements, 1492 Capital Management is not responsible for trade execution, trade timing, broker selection, recordkeeping or any other aspect of client service.

Generally, accounts will be invoiced in arrears at the end of each calendar quarter based upon the value of the client's account at the end of the previous quarter or based on the average account value during the previous quarter. There may be broker-dealer platforms that bill their clients in advance for utilizing our Model Portfolio Management Services.



Wrap Fee Programs and Separately Managed Account Fees: 1492 Capital Management provides investment advisory services to wrap fee program accounts offered by program sponsors and the fees and features will vary by program. Clients participating in separately managed account wrap programs will be charged various program fees in addition to the advisory fee charged by us. Such fees may include the investment advisory fees of the independent advisers, which may be charged as part of a wrap fee arrangement. In a wrap fee arrangement, clients typically pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions may be executed without commission charge in a wrap fee arrangement. In evaluating such an arrangement, the client should also consider that, depending upon the level of the wrap fee charged by the broker-dealer, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with clients any separate program fees that may be charged to clients.

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

1492 Capital Management, LLC may make performance-based fees available to clients upon request. Although there is an incentive to favor accounts with performance-based fees, as our compensation is directly tied to the account's performance, accounts are typically managed identically regardless of the fee structure chosen by the client.

1492 Capital Management, LLC may have an incentive to manage the assets of accounts with performance-based fees differently from its other accounts because the fees earned from such accounts could be greater than the fees earned from other accounts, depending upon the investment performance achieved by the account. As a result, 1492 Capital Management, LLC may have an incentive to take more risks in, to direct its best investment ideas to, or to allocate or sequence trades in favor of, the accounts that pay a performance-based fee. 1492 Capital Management, LLC believes this potential conflict is effectively controlled by its management of all accounts within a particular investment strategy similarly regardless of fee structure and by its trade processing and allocation procedures.

A performance-based fee arrangement includes, as a base, a fixed, management fee component that is calculated monthly and billed quarterly in arrears as well as a variable component that could be calculated based on the relative outperformance of the portfolio to the stated composite benchmark, calculated based on the appreciation of the client assets or calculated based on the gain in the account. In any case, the performance-based fee will be calculated pursuant to the advisory agreement, but no less frequently than quarterly at the end of the calendar quarter and billed thereafter.

#### **Item 7                      Types of Clients**

1492 Capital Management, LLC generally provides advisory and wealth management services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations and foundations
- Corporations or other businesses not listed above

Additionally, 1492 Capital Management may also provide model portfolio recommendations to sponsors of managed account programs.

**Item 8                    Methods of Analysis, Investment Strategies and Risk of Loss**

**Methods of Analysis:** We use the following methods of analysis in formulating our investment advice and/or managing client assets:

Fundamental Analysis. We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Technical Analysis. We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Qualitative Analysis. We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk of using qualitative analysis is that our subjective judgment may prove incorrect.

Risks for all forms of analysis. Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

**Investment Strategies:** We use the following investment strategies in formulating our investment advice and/or managing client assets provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

Long-term purchases. We may purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular theme over time, regardless of the current projection for this theme.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases. We may purchase securities with the idea of holding them in the client's account for less than a year. Typically, we employ this strategy when:

- we believe the securities achieve their price target in less than a year, and/or

- a company's growth prospects may accelerate beyond our expectations and the stock price appreciates as a result.

A risk in a short-term purchase strategy is that by holding the security for this length of time, we may increase the volatility and turnover of the portfolio. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Risks of Loss:** Investing in securities involves a risk of loss. We do not offer any strategies or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisors, market indices, or investment products. We primarily recommend common stocks with market capitalizations that are in line with the Russell 2000 Index.

**General Market and Economic Risk:** The value of the strategy's investments may decline due to changes in general economic and market conditions. The value of securities held in the strategy may be adversely impacted by developments affecting markets in general, such as political, regulatory, market or economic developments, or other developments that impact specific economic sectors, industries and segments of the market. Further increasing market and economic risks is the impact of the pandemic from the global outbreak of COVID-19. This pandemic drove mandatory business closures, layoffs, quarantines, restrictions on public gatherings and travel. It has disrupted the global economy and markets and could adversely affect investments in the future. Uncertainties regarding the recovery of all impacted aspects could lead to additional market volatility which could negatively affect security prices.

**Investment Selection Risk:** The performance of the strategy depends on our ability to select and size investments appropriately and correctly predict future price movements, economic and market conditions, and/or the value of equity securities, and/or other investments. The value of investments held by a strategy may be adversely impacted by developments affecting the specific issuer of the security, even if the overall industry or economy is unaffected. These developments may include a variety of factors, such as management issues, political or regulatory factors, a decline in revenues or profitability, losses of key suppliers, customers or material contracts, a failure to meet expectations for earnings or other financial or business metrics, litigation, bankruptcy, an increase in operating or other costs, defaults under credit arrangements or material contracts, weak demand for the issuer's products or services, or other events that adversely impact the issuer's competitive position.

**Common Stock Risk:** Common stocks are susceptible to market fluctuations and to volatile increases and decreases in value as investors' confidence in and perceptions of their issuers change. Investments in common stocks are subject to the risk that in the event of a company's liquidation, the holders of preferred stock and creditors will be paid in full before any payments are made to holders of common stock.

**Growth Style Risk:** The prices of growth stocks may be more sensitive to changes in current or expected earnings than the prices of other stocks.

**Value Style Risk:** Value stocks may perform differently from the market as a whole and may never reach what the Adviser believes are their full market values.

**Exchange Traded Funds Risk:** To the extent a strategy invests in ETFs, in addition to risks applicable to other equity securities, it will be subject to the risk that the ETFs may trade at prices below their net asset value and that an active market for an ETF's shares may not develop. ETFs have their own management fees and expenses, which may be duplicative, and we have no control over the ETF's investment strategies or objectives. Leveraged and inverse ETFs typically make extensive use of derivatives, are subject to additional risks and may be considered speculative.

**Small-Cap Risk:** Investing in securities of small-cap companies generally involves a higher degree of risk than investing in securities of larger companies. The prices of securities of smaller companies are generally more volatile than those of larger companies, and they generally will have less market liquidity.

**Fixed Income Risks:** Investing in bonds and other fixed income securities are subject to certain risks, including but not limited to, interest rate risk, credit risk, prepayment risk and market risk, which could reduce the yield that an investor receives.

**High-Yield Bond Risk:** Investments in high-yielding, non-investment grade bonds involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to make timely interest and principal payments on these securities.

**Security Selection and Asset Allocation Risk:** Securities selected from a particular asset class (e.g., stocks, bonds, money market instruments) may experience unusual market volatility or may not perform as expected. An asset allocation program does not guarantee achievement of a client's investment objective nor protect against loss.

**Options and Futures Risk:** The writing and purchasing of options is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. Imperfect correlation between the options and securities markets may detract from the effectiveness of the option transaction. We may purchase and sell futures contracts to hedge against changes in prices. We may also write call options and purchase put options on futures contracts as a hedge to attempt to protect securities in its portfolio against decreases in value.

**Cybersecurity Risk:** Operating our investment business, to a great extent, depends on technology and electronic communications which increases the risk of cybersecurity events at 1492 Capital Management or one of its counterparties or service providers. A cybersecurity event could lead to corrupted files or unauthorized access or dissemination of clients' personal information, for example. We have systems and safeguards in place; however, it is possible that threats or events may occur in the future that could not have been predicted or detected.

## **Item 9                    Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management and there are none to report.

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

Tim Stracka is a registered representative of North Capital, a registered brokerdealer. At all times, the interests of 1492 Capital Management, LLC clients are the priority.

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

1492 Capital Management, LLC has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code. 1492 Capital Management will provide a copy of our Code of Ethics to any clients or prospective client.

Our Code of Ethics requires covered persons to conduct personal securities transactions in a manner that does not interfere with transactions on behalf of 1492 Capital Management's clients and does not take inappropriate advantage of their positions and access to information that comes with such positions. The Code of Ethics includes policies and procedures for the firm's access persons to obtain preapproval of most securities transactions by compliance personnel. Additionally, the Code requires the submission of quarterly securities transactions reports as well as initial and annual securities holdings reports. Employees may trade the same or related securities (e.g. options or warrants) for their own accounts that are recommended or held in client accounts so long as these transactions are not counter to the clients' best interests and not executed in close proximity to the clients' transactions. With this provision, there is a potential that employees could benefit from client market activity in a security held by an employee. Certain classes or types of securities such as mutual funds and government securities are exempt from the Code as these would not interfere with placing the clients' interests first. Employee trading is monitored by the firm's compliance personnel to ensure compliance with the Code of Ethics, and to reasonably prevent conflicts of interest between the firm's employees and its clients.

1492 Capital Management, LLC's Code of Ethics and Compliance Manual further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

1492 Capital Management, LLC and individuals associated with our firm are prohibited from engaging in principal and in agency cross transactions.

## **Item 12            Brokerage Practices**

1492 Capital Management, LLC generally enters into discretionary management agreements with its clients which affords 1492 Capital Management to determine which securities and the quantity thereof are purchased and sold, the broker-dealer to be used and the commission, if any, to be paid to the broker-dealer to effect the transactions. At the request of the client, the Firm may direct securities trades to a particular broker-dealer. Clients who make such requests will be informed that they may be paying higher commissions and transaction costs.

1492 Capital Management, LLC will endeavor to select those broker-dealers which will provide the best services at the lowest commission rates possible but may necessitate, based on investment strategy or custodian selected, the use of a single broker-dealer, such as Interactive Brokers, for client accounts on that platform. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help 1492 Capital Management, LLC in providing investment management services to clients. Brokers are reviewed semi-annually and ranked for service provided. 1492 Capital Management, LLC may, therefore, recommend (or use) the broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

Consistent with obtaining best execution for clients, 1492 Capital Management, LLC may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to 1492 Capital Management, LLC and, indirectly, to 1492 Capital Management, LLC's clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion). Research services obtained through the use of soft dollars may be developed

by brokers to whom brokerage is directed or by third parties which are compensated by the broker. 1492 Capital Management, LLC does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. 1492 Capital Management, LLC may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if 1492 Capital Management, LLC determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its ('brokerage') discretionary client accounts.

Additionally, 1492 Capital Management, LLC, participates in a wrap program sponsored by Robert W. Baird & Co. ("Baird"). We may have an incentive to place trades with Baird to potentially gain additional clients from them. Although the wrap accounts typically will not participate in our allocation of initial public offering shares, we may purchase the security in the open market via the wrap sponsor.

Our firm currently maintains a brokerage and custodian relationship with Interactive Brokers. Accounts currently using Interactive Brokers as custodian must also trade through Interactive Brokers. These accounts will not participate in our allocation of initial public offering shares; however, we may purchase the security in the open market for them.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and 1492 Capital Management, LLC makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When 1492 Capital Management, LLC uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that 1492 Capital Management, LLC does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients. Within the last fiscal year, we obtained the following products and services on a soft dollar basis: research reports on companies, industries, the economy, and securities; economic and financial data; financial publications; access to conferences and seminars; access to management teams of companies with which the broker-dealer has a relationship; computer databases; quotation services; and research-oriented / analytical software services.

1492 Capital Management has also entered into client commission sharing arrangements with certain broker-dealer firms pursuant to which we execute securities transactions with such broker-dealers in order to facilitate the receipt of research products and services provided by a party other than the executing broker-dealer. A portion of the commission paid to the executing broker-dealer is retained by that broker-dealer as compensation for the execution services provided, while another portion is credited for the provision of research products and services. 1492 Capital Management typically instructs the providers of such research products or services to deliver an invoice for the research products or services directly to 1492 Capital Management which coordinates payment of the invoice by an executing broker-dealer from the accrued commission credits.

1492 Capital Management, LLC will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts,



so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block. Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. 1492 Capital Management, LLC will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day. Trades for accounts that are on Interactive Brokers' platform are traded through Interactive Brokers exclusively and are executed simultaneously with other accounts that are not on the Interactive Brokers platform. Trades executed for those Interactive Brokers accounts are block traded.

Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with 1492 Capital Management, LLC, or our firm's order allocation policy. The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable 1492 Capital Management, LLC to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.

If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.

Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.

1492 Capital Management and its employee accounts may be part of a block order placed to purchase or sell a particular security. Thus, when the firm's or a related person's account holds the same security that is within one or more client accounts, or needs to purchase the same security that one or more client accounts will purchase, there is an inducement for 1492 Capital Management to block the trades because the average price may be better than the price the related account could have achieved alone. In all cases, client needs and objectives are placed ahead of those of 1492 Capital Management and its related persons' accounts.

### **Item 13            Review of Accounts**

While the portfolio manager(s) of a given strategy is/are responsible for ongoing review of the securities within that strategy, the trader and operations personnel routinely review the securities transactions effected in the accounts. On a monthly basis, the accounts in aggregate by strategy are reviewed by the Portfolio Review Committee which includes the: CCO; COO; portfolio managers of all strategies; and, trader. Accounts are reviewed in the context of the investment objectives and guidelines of each model portfolio as well as any investment restrictions provided by the client. More frequent reviews may be triggered by material changes in variables such as the market, political or economic environment.

In addition to the monthly or quarterly statements and confirmations of transactions that clients receive from their custodians, 1492 Capital Management, LLC provides written monthly reports summarizing account performance, balances and holdings.

**Item 14            Client Referrals and Other Compensation**

Our firm does not compensate any independent person or firm and we do not receive compensation or other economic benefit from someone who is not a client. Additionally, it is 1492 Capital Management, LLC's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

**Item 15            Custody**

Our firm is not a custodian and does not serve as a custodian for any clients; however, 1492 Capital Management is deemed to have custody to the extent that it deducts its advisory fee from client accounts where authorized to do so by the client. Clients should receive statements from the custodian that maintains their investments and 1492 Capital Management, LLC urges clients to carefully review and compare such statements with those provided by our firm. Differences may exist between the statements as a result of accounting procedures, reporting dates or valuation methodologies of certain securities. If a client needs to establish a new custodial relationship in order to receive our investment management services, we may suggest a custodian after considering the services offered regarding settlement, clearing and others. It is the client's decision to select the custodian of their account assets and to set up the relationship and account with their chosen custodian. We are not compensated in any way for suggesting a custodian.

**Item 16            Investment Discretion**

Clients typically hire us to provide discretionary investment management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission. Our discretionary authority affords us the ability to determine the security and the amount thereof to buy or sell without contacting the client. Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

**Item 17            Voting Client Securities**

We vote proxies for client accounts; however, clients always have the right to vote proxies. Clients can exercise this right by instructing us in writing to not vote proxies in their account.

We will vote proxies in the best interests of our clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. An exception to this process is if a custodian or sub-custodian does not have the technology or interface to allow us to vote the shares, we will not be able to do so. Clients may obtain a copy of our proxy voting policies and procedures by calling or writing to us. Clients may request, in writing, information on how proxies for his/her shares were voted. Clients can instruct us to vote proxies according to particular criteria (for example, to always vote with management, or to vote for or against a proposal to allow a so-called "poison



pill" defense against a possible takeover). These requests must be made in writing. Clients can also instruct us on how to cast their vote in a particular proxy contest by calling or by submitting a request in writing to us.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should call or submit a request in writing.

## **Item 18 Financial Information**

1492 Capital Management, LLC has no financial circumstances reasonably likely to impair its ability to meet its contractual commitments to its clients and under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered.

### **Other Information - Portfolio Holdings Disclosure**

From time to time, 1492 Capital Management, LLC may make available to third parties current or historical information regarding the portfolio holdings of the models or certain separate account clients. These third parties may include rating agencies, industry trade groups, consultants, and financial publications. In compliance with applicable law and consistent with its fiduciary duties, 1492 Capital Management, LLC will generally only release such information when it is otherwise publicly available, when there is a validly executed agreement imposing a duty of confidentiality on the other party and covering the use of the information, or when 1492 Capital Management, LLC reasonably believes that the release will not be detrimental to the best interests of the applicable client(s).

### **Other Information - Privacy Policy**

Preserving trust is a core value. 1492 Capital Management, LLC recognizes that clients expect us to protect the information they provide us and to use it responsibly. We are strongly committed to fulfilling the trust that is the foundation of our clients' expectations. For that reason we have adopted and adhere to the following policy regarding the privacy of client information.

#### Why We Collect And How We Use Information.

When we evaluate your request for our services, provide investment advice to you and place transactions for your account, you typically provide us with certain personal information necessary for us to provide these services. We may also use that information to offer you other services we or an affiliate may provide which may meet your investment needs.

#### What Information We Collect.

The information we collect may include: name and address; employer; Social Security Number or tax payer identification number; assets; income; account transactions; investment and other financial product positions and balances; investment objectives; accounts at other institutions; transactions at other institutions, including affiliates; the identities of consultants, accountants, attorneys and other professionals you engage. Information we receive from third parties, including credit bureaus, and information we obtain to verify your representations to us, such as your identity and assets, may be included.

### We Limit How and With Whom We Share Your Information

We do not sell your personal information to anyone. We may disclose information about you with your consent to our employees, affiliates, representatives and their affiliated businesses. We may disclose information to nonaffiliated third parties when providing services to you. Nonaffiliated third parties may include retirement plan sponsors or third party administrators, custodial banks, mutual fund companies, insurance companies and agencies, third party advisory firms, banks, broker-dealers, transaction clearing firms, accountants, lawyers, securities professionals, companies that assist us with the maintenance of required records, and others to assist us, or them, in providing services to you.

We may also share information with companies that perform services on our behalf, such as the companies that we hire to perform marketing or administrative services. Companies we may hire to provide support services are not allowed to use your personal information for their own purposes. We may also make additional disclosures as permitted by law.

We will also share the information we received from you as required by laws and rules applicable to you, client account service providers, 1492 or 1492's representatives.

If you close your account, in the process of transferring your accounts we may share your information with the new broker-dealer, investment adviser or custodian that you or your 1492 representative selects. Your 1492 representative may use the personal information about you in his or her files to provide you with information regarding the new firm, account transfer procedures and documents.

If you prefer that we not share your nonpublic personal information (except in those circumstances described above that are permitted or required by law), you may opt out at any time by notifying us not to share information. To notify us, please call us at 414-276-1492. You will be asked to provide identifying client information at that time, including your Social Security Number.

For accounts that are held jointly by more than one client, any of the account holders may opt out on behalf of the other account holders. Any opt out instructions received from one owner of a joint account will apply also to individual accounts in that person's name, as well as other accounts held jointly by that person, based on the account information we have.

### How We Protect Information.

Employees and our advisory representatives are required to comply with our established information confidentiality procedures. We also maintain physical, electronic, and procedural safeguards to protect information. For example, our computer systems utilize password protection to prevent access by unauthorized personnel. 1492 ensures service providers provide assurances that they will restrict their use of the information provided about you.

### Access to and Correction of Your Information.

Upon your written request, we will make available your information for review. Information collected in connection with, or in anticipation of, any claim or legal proceeding will not be made available. If your personal information with us becomes inaccurate, or if you need to make a change to that information, please contact us at the number shown below so we can update our records. Also, if you believe someone has accessed your account without authorization, please contact us as soon as possible.

### Further Information.

For additional information regarding our privacy policy, or if you have any questions and/or concerns about your account or about our services, please contact Client Services by writing to us at 309 N. Water St., Suite 210, Milwaukee, Wisconsin, 53202.