

## CHARACTERISTICS AND RISKS OF SECURITIES LENDING PROGRAM

You should read these disclosures carefully before deciding whether to participate in Fenix Securities, LLC's Fully-Paid Securities Lending Program and before signing a Master Securities Lending Agreement for Fenix Securities, LLC Fully-Paid Securities Lending Program ("the Program").

Before deciding to participate in the Fully-Paid Securities Lending Program and executing the Master Securities Lending Agreement (the 'Program'), it is important that you carefully review the disclosures provided. Please be advised Fenix Securities, LLC serves only as an intermediary, facilitating communication between the involved parties (you and Clearing firm).

### INTRODUCTION

Fenix Securities, LLC ("Fenix"), **acting solely as an intermediary between the customer and the Clearing Firm**, offers eligible customers the opportunity to lend certain of their fully paid and excess margin securities. These securities may then be lent to other customers or market participants who wish to use them for short-selling, required deliveries, or other purposes. Fully-paid securities refer to those in your account that have been completely paid for, while excess-margin securities are those whose market value exceeds 140% of your account's debit balance(s). In this disclosure and the relevant agreements, the terms 'Fully-Paid Securities' or 'Fully-Paid Shares' collectively refer to both fully-paid and excess margin securities. Lending your Fully-Paid Shares may offer an opportunity to enhance the yield on your portfolio, as certain shares are in high demand within the securities-lending market, with borrowers willing to pay for their use. It is important to note, however, that the Clearing firm is the sole entity responsible for executing and finalizing all transactions under this program, while Fenix Securities, LLC performs only as a facilitator.

By participating in the program, you hereby authorize the borrowing of any Fully-Paid Securities held in your portfolio, and grant permission for such securities to be lent to the securities lending market.

For this program, the Clearing Firm will have the discretion to initiate loans of your securities. Providing your authorization to participate in the program means that you will not be asked to approve each loan before it is initiated, but you can sell your shares at any time or terminate your participation in the program.

### CHARACTERISTICS & RISK OF LENDING PROGRAM

**Basic Mechanics of a Fully-Paid Lending Transaction.** Upon the execution of the lending transaction, the borrowed securities will be debited from your account; however, they will continue to be listed on your account statements as securities on loan. The Clearing Firm will supply collateral to guarantee its obligation to return the securities at the conclusion of the loan.

**Securities Loaned Out By You May Not Be Protected by SIPC.** The provisions of the Securities Investor Protection Act of 1970 ("SIPA") may not protect you as a lender with respect to securities loan transactions in which you lend your Fully-Paid Securities to Fenix.

Thus, the collateral provided to you (as indicated on your account statement) may serve as the sole means of recourse if the borrower fails to return the securities.

**Securities Loaned Out By You Are Typically Used to Facilitate Short Sales.** The type of securities that are generally attractive to borrowers in the securities lending market, and which generate the highest income potential, are "hard to borrow" securities. When you lend your Fully-Paid Securities, such securities will likely facilitate one or more short sales or satisfy delivery requirements resulting from short sales. Since you are holding the shares "long" in your account, the activity of short sellers potentially could affect the value of your holdings. You may elect not to permit securities that are the subject of a loan to be used in connection with a short sale of the subject securities. Suppose you elect not to permit your securities to be used in connection with a short sale of the subject securities. In that case and under your direction, Fenix will terminate any then-outstanding loan and unenroll your account from the program to prevent the borrowing of the security for that purpose. If you do not want your fully-paid securities used to facilitate short sales, you should NOT participate in the Fully Paid Securities Lending Program.

**You Continue to Own Loaned Shares and Have Market Risk on Those Shares.** When you lend securities, you continue to own the securities and you continue to have the market exposure inherent in the ownership of the securities (i.e., if the share price increases while you own the shares but are lending them out, the value of the securities you are entitled to receive back upon the termination of the loan will increase; if the share price goes down, the value of the securities you are entitled to receive back upon the termination of the loan will decrease).

## CHARACTERISTICS AND RISKS OF SECURITIES LENDING PROGRAM

**You Can Sell Your Loaned Securities at any Time.** Even though you have loaned your securities out, you can sell those securities at any time, just like any other securities in your account. Your sale of the securities will constitute a termination of the loan effective on the settlement date of the sale. You do not have to take any other action to terminate the loan or wait for the shares to be returned before selling them. Even if the shares are not returned in time to settle your sale of the shares, the Clearing firm will be responsible for settling the sale, not you, and you will receive the proceeds from the sale of the shares on the normal settlement date for the sale.

Loan rates, and consequently the interest rate you will receive, are subject to frequent fluctuations and may change significantly, either upward or downward. Rates for 'hard-to-borrow' securities, as well as other securities, can vary frequently, even on a daily basis, in the securities-lending market. Such fluctuations may result in a reduction or increase in the interest paid to you on the loan. Likewise, the Clearing Firm may change the rate it pays you compared to the income that Fenix or the Clearing Firm receives when it lends your securities to third parties. You will not have direct control over when to initiate or terminate loans of specific shares (including based on rate changes). However, you can always terminate your participation in the program (which will terminate all of your lending transactions) if you are unhappy with the interest rates, you are receiving or the nature or frequency of rate changes.

**Potential Adverse Tax Consequences from Receiving Substitute Payments or Payments instead of Distributions on Loaned Securities.** When you lend your Fully-Paid Securities, you will be entitled to receive all distributions (as that term is defined in the Agreement) made on or in respect of the securities, such as cash or securities dividends, interest payments, securities received as a result of splits, spin-offs or similar distributions, and rights to purchase additional securities. If the holder of a security borrowed from you is entitled to elect the type of distribution to be received from two or more alternatives, you shall be entitled to make such an election by timely notification. However, you will receive substitute payments (e.g., a cash substitute payment) instead of receiving dividends or other types of distributions directly from the issuer. Certain unique distributions may not be capable of being exactly replicated as a manufactured payment. You should consult a tax advisor regarding the tax implications of entering into the Agreement and lending securities, the receipt of substitute payments under applicable federal, state, and local tax laws, as well as any foreign tax regulations, circumstances where a securities loan could be treated as a taxable disposition of the loaned securities and treatment of loan interest.

**Loan Termination.** Fenix or the Clearing Firm may terminate your loan at any time in its sole discretion. When the loan is terminated, shares will be returned to your account. You may terminate a loan at any time by selling the security that is the subject of the loan or requesting delivery or transfer of the security to another custodian. Under the terms of the Agreement, you may also terminate a loan by notice to Fenix or the Clearing Firm; please note, however, that if the security remains in your account and it remains enrolled in the Program, the security may be promptly re-borrowed. If you would like to terminate a loan and prevent it from being re-borrowed, you can terminate your participation in the program (which will terminate all of your lending transactions).

**Key Factors Influencing the Amount of Compensation Fenix or the Clearing Firm may Earn.** The key factors that influence the amount of compensation the Clearing may earn from borrowing securities loaned by you are (i) the availability of the securities for lending in the marketplace relative to the demand to borrow such securities; (ii) then-current interest rates, which impact what the Clearing Firm may earn from re-investing cash collateral received from counterparties to which it lends securities; (iii) commissions, interest and other fees the Clearing Firm may earn from customers that borrow securities from the Clearing Firm to sell short through the Clearing Firm or in accounts carried by the Clearing Firm. Fenix's compensation may fluctuate as the Clearing Firm's compensation fluctuate.

**Key Factors Influencing Loan Interest Paid to You.** You will be paid loan interest by the Clearing Firm for the loan of your securities. The interest payable to you in respect of any particular loan as of a given date is detailed on your daily account statement. You will not receive any portion of any other compensation the Clearing Firm may earn in connection with the re-lending of your securities, including, without limitation, any interest the Clearing Firm may earn on collateral provided to you, any interest the Clearing Firm may earn on collateral provided to it by counterparties to which it re-lends the loaned securities, any fees Clearing Firm may earn from counterparties to which it re-lends the loaned securities or any commissions the Clearing Firm may receive in connection with any executions of transactions for the account of parties that borrow securities. The key factors that influence the amount of loan interest paid to you are (i) the availability of the securities for lending in the marketplace relative to the demand to borrow such securities; (ii) the average loan interest earned by the Clearing Firm in lending securities of the same class to third parties during the term of your loan; (iii) current interest rates; and (iv) whether Fenix shares a portion of the compensation it earns from re-lending securities borrowed from you with a third party such as your introducing broker or financial advisor. The loan interest rate may be changed from time to time at the Clearing Firms' sole discretion and different rates may be paid to different customers based on a variety of factors, including the size of the customers' loan portfolios and the types of Fully-Paid Securities available in the customers'

## CHARACTERISTICS AND RISKS OF SECURITIES LENDING PROGRAM

accounts. If you participate in the Program and your Fully-Paid Securities are borrowed, the Clearing Firm will accrue interest for your account daily and credit your account with the loan interest monthly.

There Is No Guarantee That You Will Receive the Best Loan Rates for Your Shares. The securities lending market is not standardized or transparent. Securities lending transactions generally take place "over the counter" rather than on organized exchanges where prices and transactions are transparent. It cannot be guaranteed that the highest rate will be paid for borrowing your shares. Fenix or the Clearing Firm may not have access to the markets or counterparties that are offering the most favorable rates or may be unaware of the most favorable rates. The Clearing Firm, or its affiliates through which it conducts certain securities-lending activities, will typically receive a higher rate from its securities-lending counterparties than it pays to you for the loan of your securities, thus earning a spread. You may always terminate your participation in the program if you are unhappy with the rates you are receiving.

**Loss of Voting Rights.** You may lose the right to vote, to provide any consent, or to take any similar action concerning loaned securities if the record date or deadline for such vote, consent, or other action falls during the term of any loan.

**Right to Liquidate Securities Upon Your Default.** The Clearing Firm will have the right to liquidate any securities loan upon an event of Default (as that term is defined in the Agreement) by you, which includes, without limitation, your: (a) applying for or consenting to, or becoming the subject of an application for, the appointment of or the taking of possession by a receiver, custodian, trustee, or liquidator of all or a substantial part of your property; (b) admitting in writing your inability, or becoming generally unable, to pay your debts as such debts become due; (c) making a general assignment for the benefit of your creditors; or (d) filing, or having filed against you, a petition under Title 11 of the United States Code (the Bankruptcy Code), or having filed against you an application for a protective decree under Section 5 of SIPA, unless the right to liquidate such transaction is stayed, avoided, or otherwise limited by an order authorized under the provisions of SIPA or any statute administered by the SEC.

### CONFLICT OF INTEREST

There is a conflict of interest due to Fenix Securities, LLC serving as an intermediary in the Fully-Paid Securities Lending Program because Fenix Securities, LLC is compensated when you participate in the program.

### IMPORTANT NOTE

**IN THE EVENT OF A CONFLICT BETWEEN THE TERMS OF THIS DISCLOSURE DOCUMENT AND THE TERMS OF THE MASTER SECURITIES LENDING AGREEMENT THAT YOU SIGNED; THE TERMS OF THE MASTER SECURITIES LENDING AGREEMENT SHALL GOVERN.**