



# **Guide to Investment Services**

## Regulation Best Interest Disclosure Statement

Zanbato Securities LLC

(Please retain with your records)

**Thank you for your interest in Zanbato Securities LLC's products and services.**

Zanbato Securities LLC ("Zanbato") is providing this information to enhance the transparency of our relationship by disclosing the scope and terms of the brokerage products and services we offer and detailing the material conflicts of interest that arise in our delivery of these products and services. Each client's circumstance is unique, as is its solution. An important step in the process is understanding the products and services we provide and the related fee structures. This guide (this "Guide") explains the scope of the products and services we provide, the standard of care we observe with respect to such products and services, how we work with you to select products and services that suit your needs, and our compensation for the products and services we offer. We encourage you to review this information carefully, along with any applicable agreement(s) and disclosure documentation you may receive from us.

We hope you find this Guide to be a useful resource. The Table of Contents on the next page is an overview of the details you will find inside. We may make periodic updates to this Guide and will notify you of any material changes. You can also view the most current version of this Guide at [www.zanbato.com](http://www.zanbato.com), or you can always contact the Zanbato Associated Persons who work with you on specific transactions.

Zanbato is a broker-dealer registered with the U.S. Securities and Exchange Commission ("SEC"), and a member of the Financial Industry Regulatory Authority ("FINRA"), the Securities Investor Protection Corporation ("SIPC"), and the National Futures Association ("NFA").

# Table of Contents

- Section 1: Who We Are, Who We Serve, and How We Serve You..... 1
  - Who We Are ..... 1
  - Who We Serve ..... 1
  - How We Serve You ..... 1
- Section 2: Investment Services ..... 3
  - Different Types of Investment Services ..... 3
    - Purchase or Sale of Private Company Securities..... 3
    - Private and Hedge Fund Referrals..... 4
  - Transaction-Based Fees ..... 5
- Section 3: Products Available ..... 5
  - Resale of Private Company Securities..... 5
  - Alternative Investments ..... 7
- Section 4: Compensation and Potential Conflicts ..... 8
  - Associated Person Compensation ..... 9
  - Zanbato Securities LLC’s Conflicts of Interest and Other Disclosures..... 10
- Section 5: Protection of Client Information..... 10

## **Section 1:**

# **Who We Are, Who We Serve, and How We Serve You**

## **Who We Are**

Zanbato Securities LLC (“Zanbato”) is a registered broker–dealer with the United States Securities and Exchange Commission (“SEC”), a member of the Financial Industry Regulatory Authority (“FINRA”), the Securities Investor Protection Corp. (“SIPC”), and the national Futures Association (“NFA”), and operates an SEC-registered Alternative Trading System. Zanbato is designated as an exempt International Dealer under the Ontario Securities Commission (“OSC”), Autorité Des Marchés Financier (Quebec), and Alberta Securities Commission. It is also an Introducing Broker Member of the NFA for the purpose of facilitating third-party marketing of private investment funds that may invest in commodity futures or options on commodity futures. In addition, Zanbato is designated as exempt investment firm under the Dutch Authority for the Financial Markets (“AFM”). Zanbato and Zanbato UK Limited are also approved to provide Investment Services in Luxembourg as a Luxembourg third-country regime. Zanbato has an affiliated broker-dealer in the United Kingdom, Zanbato UK Limited, member of the Financial Conduct Authority (“FCA”). For the sake of completeness, Zanbato has an affiliate, Zanbato Advisors LLC (“Zanbato Advisors”), which makes filings with the State of California as an exempt reporting adviser; Zanbato Advisors is not subject to Regulation BI.

Zanbato offers certain limited products and services to retail investors, specifically, (i) facilitating the resale of private company securities, including tender offers (“Transactions”); and (ii) making introductions to curated hedge funds (“Referrals”). We do not carry any customer accounts or hold customer funds or securities. We offer only a limited range of investment products and services connected to those products. You will need to open accounts with other financial institutions to make investments in products not offered by us.

## **Who We Serve**

We provide limited products and services to US and Non-US institutions, registered broker-dealers, registered investment advisers, exempt reporting advisers, qualified purchasers and qualified institutional brokers and certain retail investors in a number of ways, depending on their individual circumstances and how they prefer to engage with us.

## **How We Serve You**

We put the needs of our clients first and it is the foundation of our business as we work to understand our clients' interests.

As a registered broker-dealer, Zanbato and its activities are subject to various laws, rules, and regulations, including the Securities Act of 1933, as amended (the “Securities Act”), the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the rules of the SEC, FINRA, and the NFA and state laws. We also have limited member rights in certain Canadian provinces, and the Dutch Authority for the Financial Markets. In addition, our affiliated investment adviser, Zanbato Advisors, makes filings with the State of California as an exempt reporting adviser. Zanbato’s

duties to you include, among others, the following obligations under Regulation Best Interest (“Reg BI”) to act in the “best interest” of our retail customers when making a securities-related recommendation, even if the recommendation is not in Zanbato’s best interest, financial or otherwise, should we make a recommendation. Instead of a specific definition of “best interest,” the SEC chose to impose four (4) mandatory obligations that collectively set forth the components of “best interest.” These are (1) the Disclosure Obligation, (2) the Care Obligation, (3) the Conflict of Interest Obligation, and (4) the Compliance Obligation. We discuss these four obligations below:

**1. Disclosure Obligation: Make full and fair disclosure to you, in writing, prior to or at the time of a recommendation, of all material facts relating to:**

- *The scope and terms of our relationship*, whether acting in our capacity as a broker-dealer in assisting you in the resale of your private company securities or when we make an introduction to a hedge fund.
- *The costs* that apply to your transaction.
- If a recommendation, *any limitations* included by your Associated Person.
- If a recommendation, *any conflicts of interest* associated with the transaction, such as those related to compensation arrangements.

**2. Care Obligation: Exercise reasonable diligence, care and skill when making a recommendation to you, including:**

- Understand the potential risks, rewards, and costs associated with a recommendation, and have a reasonable basis to believe that when a recommendation is made, it is in the best interest of customers generally, even if it may not necessarily be appropriate for you in particular.
- Have a reasonable basis to believe that when a recommendation is made, it is in your particular best interest based on your investment profile and that the potential risks, rewards and costs associated with the transaction do not place the financial or other interest of Zanbato ahead of yours. Your investment profile includes your age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information that you may disclose to the Associated Person in connection with the transaction. This includes assessing the availability of alternative investments in connection with the investment decisions you make through Zanbato.
- Have a reasonable basis to believe that, when a series of recommended transactions are made, even if in your best interest when viewed in isolation, are not excessive, are in your best interest when taken together considering your investment profile, and do not place Zanbato’s interests ahead of yours.
- Zanbato is also obligated to consider alternative investments before making recommendations to you.

**3. Conflict of Interest Obligation: Establish, maintain, and enforce written policies and procedures reasonably designed to:**

- Identify and disclose, mitigate or eliminate conflicts of interest associated with recommendations, when one is made that places Zanbato’s interests ahead of yours.
- Zanbato has created policies and procedures designed to disclose and mitigate the conflict.
- Identify and disclose any material limitations that apply to the product or service being

recommended, such as what investments your Associated Person is licensed to recommend, and prevent those limitations from causing the Associated Person to suggest an investment that places their interests or Zanbato's ahead of yours.

- Identify and eliminate any sales contests, quotas, bonuses, and non-cash compensation that are based on recommending specific securities or specific types of securities within a limited period of time.

**4. Compliance Obligation: Establish, maintain and enforce written policies and procedures reasonably designed to:**

- prevent violations of Regulation BI from occurring;
- detect violations of Regulation BI that have occurred; and
- correct promptly any violations of Regulation BI that have occurred.

## **Section 2:**

### **Investment Services**

#### **Different Types of Investment Services**

Zanbato offers limited investment products and services. It acts solely as a broker-dealer and not as an investment adviser. Brokerage and investment advisory services and fees differ, and it is important for you to understand these differences. In particular, brokerage fees are generally transaction-based and determined as a percentage of the dollar amount of each transaction, while advisory fees are generally asset-based and determined as a percentage of the total assets managed by the investment adviser. Zanbato does not create or carry any customer accounts or hold customer funds or securities.

The scope of the services Zanbato provides to all investors is limited, as detailed below. Once you have completed a Transaction and we collect our commission or other fee, our involvement ends. We do not, and will not, provide any on-going or periodic review, follow-up, or monitoring of your investments, or make any recommendation to you on whether to hold, add to, or dispose of your investments. We encourage you to speak with your Associated Person if you have any questions.

#### **Purchase or Sale of Private Company Securities**

Zanbato provides retail clients the opportunity to buy and sell large blocks of private securities via ZX, which is an SEC-registered Alternative Trading System ("ATS") supporting large transactions for the purchase or sale of private company stock and debt offerings ("Transactions"), usually to institutional clients. Our primary service involves assisting you with the purchase and sale of private securities based on your instructions. These Transactions have a transaction-based cost structure and you retain the final investment decision on your transactions.

- As part of the relationship, Zanbato will handle brokerage and related functions, which may include introductions to possible Transaction counterparties, and may

facilitate your Transaction through arranging access to due diligence materials and execution.

- You generally pay Zanbato a commission for completed Transactions for each Transaction and other applicable fees (e.g., private company stated transfer fee, legal fees). Therefore, your total costs will generally increase or decrease as a result of the fees charged for the Transaction and the type of private security bought or sold. We may also be paid by third parties who compensate us based on your Transaction, subject to our general obligation that the Transaction, taken as a whole, is in your best interest and not that of Zanbato or its Registered Representatives.
- We assist you with the purchase and sale of private securities based on your instructions. Your approval will be required before any Transaction takes place. We do not have discretion over your investment decisions. You self-direct whether to enter into a Transaction; we do not act on your behalf. This means that we do not generally provide advice or recommendations regarding the Transaction for the purchase or sale of private securities, we do not make investment decisions for you, and you are responsible for managing your investments and monitoring your account on an ongoing basis.
- Zanbato has licensed software from its parent company, Zanbato Inc., to facilitate tender offers by private company issuers and other buyers (generally, hedge funds or private equity funds) to make a limited-time offer on fixed terms to purchase shares from the issuer's shareholders. This software does not operate on the ATS.

We are not acting as:

- a fiduciary under federal or state laws, rules or regulations;
- a custodian;
- a transfer agent;
- an underwriter; or
- a placement agent.

As such, we are permitted to act as agent for you and another client in the same trade. We are *acting as*:

- a *facilitator*;
- a *registered* Alternative trading System; and,
- if we make recommendations to you, we do so in a broker–dealer capacity, not as your investment advisor.

We collect a fee or a commission in connection with the secondary resale of private company securities, including tender offers, for:

- completed/consummated transactions; and
- introducing prospective sellers and purchasers to each other to negotiate their own terms.

## **Private and Hedge Fund Referrals**

We introduce retail investors to curated and vetted hedge funds for your consideration. Under Reg BI, such introductions constitute a “recommendation” as to type of account.

Investors are introduced directly to the hedge fund and you conduct your own due diligence. These hedge funds will independently conduct due diligence on you prior to accepting any investment dollars.

Zanbato enters into rebate arrangements with this select group of hedge funds for successful referrals. A portion of the fees collected by hedge funds from the investors we refer are paid by the hedge funds directly to Zanbato, at no additional cost to the investor(s). Because of this, we may be influenced to guide investors to hedge funds with which we have rebate arrangements that have higher fee structures over others, which is an apparent conflict of interest. One of the hedge funds to which Zanbato refers retail investors is a Hedge Fund of Funds ("HFoF"), which may invest in certain private investment funds ("Investee Funds") with which Zanbato has similar rebate agreements. Therefore, in addition to the referral fee this HFoF pays Zanbato, the Investee Fund will pay a referral fee to Zanbato equal to the percentage of fees received by the manager of the Investee Fund in connection with such investment. Zanbato has developed policies and procedures so that the transaction, taken as a whole, is in your best interest and not that of Zanbato or its Registered Representatives.

## **Transaction-Based Fees**

We charge certain fees or other amounts in the normal course of providing services to you. These charges may include fees for certain administrative services. The components of how we compensate our Associated Persons is discussed in more detail below.

## **Section 3:**

### **Products Available**

#### **Resale of Private Company Securities**

##### **Description**

What is a security (stock)?

- Stocks represent an ownership or debt interest in a company. When you own a company's stock, you can have an equity or debt interest in the company, or own a fractional portion of the company.
- A stockholder can achieve returns through price appreciation/depreciation, repayment of debt, and dividends.
- A stock's market value can change at any moment, depending on market conditions, inflation, investor perceptions, government regulations, political situations or a host of other issues.
- Owning stocks typically gives you the right to vote on important company issues and policies. Issuers of private company stock may place certain restrictions on their shareholders, you will need to refer to the specific Stockholder (or Shareholder) Agreement for details of your rights.



- Stockholders have a claim on a company's assets if the company goes bankrupt. Some securities provide investors with a preferred claim against the issuing company's assets. However, in the event of liquidation, stockholders (other than holders of referred debt) generally will receive what is left after all of the company's other creditors have been paid.

There are different types of stocks:

Private vs. public stocks -- private shares have not been registered and are not traded on a public exchange, while public shares have been registered and are typically traded on a public exchange. Therefore, private stock is generally illiquid when compared with public stock. Zanbato transacts only in private stock.

Common vs. preferred stock -- private shares are often issued in various classes, such as common stock and various classes of preferred stock. The classes typically have very different rights, obligations, and preferences, and, therefore, may have very different trading and exit values. Zanbato transacts in both common and preferred stock.

Primary vs. secondary stock -- primary shares are those purchased directly from the underlying issuer, while secondary shares are those purchased from another holder of the shares. Zanbato may transact in both primary and secondary stock, but generally focuses on secondary transactions.

### **Risks and other relevant information**

An investment in stocks involves a number of risks. The following discussion is not meant to be exhaustive and the risks discussed do not comprise a complete list of all the risks relating to stocks. You should consider these risks, and others, as you choose your investments.

- Private securities are not likely be registered, publicly listed or traded on an exchange, and these securities are more likely to be illiquid and therefore subject to a higher degree of liquidity risk than registered or listed securities.
- The price of securities may rise or fall because of changes in the broad market (including financial and political) or a company's financial condition, or industry-specific risks, sometimes rapidly or unpredictably.
- Some private company securities may be resold in privately negotiated transactions. The prices realized on these sales could be less than your original investment, and are likely to be less than the current net asset value of the issuer.
- If a company becomes insolvent, its stockholders are generally repaid only after all other debts of the company have been repaid. This can result in a potentially severe reduction in, or total loss of, their value. Special rules may apply to holders of preferred securities.
- Some securities trade less frequently and in smaller volumes; this often affects securities of smaller or newer companies. In addition, smaller or newer companies may be more vulnerable to economic, market and industry changes, and thus can be

riskier.

### **Resource(s) to obtain additional information**

Please consult available offering documents for any security for a discussion of risks associated with the product. We can assist you in finding them.

## **Alternative Investments - Hedge and Private Equity Funds**

### **Description**

Non-traditional, or alternative, investment strategies include investments in hedge funds, private equity funds, real estate funds and other unregistered funds (including funds that invest in such funds). Such funds are sometimes referred to as private investments or private funds because they are typically organized pursuant to exemptions from registration under federal securities laws and, therefore, are not offered to the general public.

Although interests in private investment funds sometimes may be resold in privately negotiated transactions, the prices realized on these sales could be less than the original investment, and are likely to be less than the current net asset value.

Private funds are offered only by confidential private placement memorandum or similar document (the "PPM"). The PPM provides important detailed information regarding fees, restrictions, merits, risks, investment objectives and strategies and other matters of interest, and must be read carefully before a decision is made on whether to invest.

### **Risks and other relevant information**

An investment in hedge or private equity funds involves a number of risks. The following discussion is not meant to be exhaustive and the risks discussed do not comprise a complete list of all the risks relating to an issuer or its classes of stocks. You should consider these risks, and others, as you choose your investments. Hedge or private equity funds:

- Often engage in leveraging and other speculative investment practices that may increase the risk of the complete loss of the client's investment;
- Can be highly illiquid because no trading market exists and there are restrictions on resale, transfer, withdrawal or redemption of interests;
- Can be hard to value, and provide infrequent pricing or valuation information;
- May involve complex tax structures and delays in distributing important tax information;
- Are not subject to the same regulatory requirements as mutual funds;
- Often charge performance fees in addition to management fees; and

- Although hedge and private equity fund interests sometimes may be resold in privately negotiated transactions, the prices realized on these sales could be less than the original investment, and are likely to be less than the current net asset value of the issuer.

As described above under “Transaction Based Fees,” Zanbato receives payments from private funds (or their sponsors) for the investments made by Zanbato’s clients. The fees paid to Zanbato by the sponsor or company whose interests are being offered create a potential conflict of interest in the form of an additional financial incentive to Zanbato for making such opportunities available to its clients.

**Resource(s) to obtain additional information:**

Please consult available offering documents (PPM or similar documents) for any security transaction in which you engage either through Zanbato for a discussion of the risks associated with the product. We can provide copies of these documents to you or help you find them.

## **Section 4:**

### **Compensation and Potential Conflicts**

Zanbato and its affiliates earn compensation in various ways of which you should be aware so you can better evaluate the services received from your Associated Person and Zanbato. We earn revenue from our clients in the form of transaction-based commissions and rebates from hedge funds with which we have Referral agreements. Zanbato benefits any time you use our ATS. This creates the potential conflict that we may favor products that allow us to earn higher commissions. Our initial internal evaluation by our New Business Committees, as appropriate, considers the risk of such conflicts before we accept a listing on our ATS or include a hedge fund in the list of curated funds offered to our clients.

We provide the ability for you to purchase or sell products for which we have licenses, but these products may not necessarily be in your best interest because the products we offer are limited by our licenses. All our decisions as a firm are constrained by the licenses we have.

Zanbato enters into rebate arrangements with hedge funds for successful referrals. A portion of the fee proceeds collected by hedge funds from investors we refer are paid by the hedge funds directly to Zanbato, at no additional cost to the investor(s). One of these select hedge funds is a Hedge Fund of Funds (“HFoF”), which may invest in certain private investment funds (“Investee Funds”) with which Zanbato Securities has similar rebate agreements. Therefore, in addition to the referral fee this HFoF pays Zanbato, the Investee Fund will pay a referral fee to Zanbato equal to the percentage of fees received by the manager of the Investee Fund in connection with such investment. Because of this, we may be influenced to guide investors to hedge funds with which we have rebate arrangements that have higher fee structures over others, which is an apparent conflict of interest.

## **Associated Person Compensation**

We design our compensation program to encompass best practices, support our business objectives, and enhance client interactions. Zanbato's system plays a significant role in our ability to attract, retain and motivate the highest quality workforce. Compensation creates incentives for Associated Persons to, among other things, offer certain product and services, and generate business. Zanbato's Policies and Procedures exist to mitigate conflicts of interest, where possible. See below for a description of the components of our compensation plan, detailing ways in which different conflicts of interests manifest themselves.

### **Cash Compensation**

A Zanbato Associated Person is primarily compensated through salary, transaction-based compensation, and a discretionary bonus that is based on a number of factors, including: successfully onboarding ZX subscribers, investors, participants, and/or obtaining ZX listings. The compensation paid in connection with the products and services chosen by clients varies based on certain factors. These factors include the total revenue generated by clients covered by the Associated Person, the type of clients covered by the Associated Person, and the types of products and services purchased, sold, or received by such clients.

Total compensation generally includes commissions, mark-ups/mark-downs, and services and revenue earned on the products we offer. The commission paid to your Associated Person varies and is subject to change but generally increases as total revenue attributable to your Associated Person increases.

Associated Persons may also receive financial incentives to join and/or remain at Zanbato. These incentives, which are in addition to the compensation received, may take various forms, including an up-front loan, annual cash payment, Incentive Stock Options (ISOs) and performance awards. Performance awards will be contingent upon meeting requirements set forth in the respective Associated Person's employment contract.

Associated Persons do not provide investment advice and, therefore, do not receive revenue credit with respect to your investment transactions.

### **Non-Cash Compensation**

Associated Persons may receive certain non-cash compensation under limited circumstances. Zanbato has implemented policies and procedures intended to ensure that its employees avoid actual or perceived conflicts of interest when giving or receiving non-monetary compensation from relevant parties, and comply with all applicable federal and state laws, rules and regulations. To that end, Zanbato generally prohibits the acceptance of gifts, entertainment or other non-monetary compensation in connection with the services we provide to any particular client, or in return for any business of the firm. Exceptions may be made for certain nominal non-cash gifts to employees of less than \$100 meeting certain criteria, including potentially from third-party investment managers. Meals, refreshments, and entertainment in the course of a host-attended business-related meeting or other occasion may also be permitted in limited circumstances. Payment of travel or accommodation expenses are prohibited.

Zanbato's policies set conditions for each of these types of payments, and do not permit any gifts or entertainment unless it is clear that the gift-giving person is not trying to influence or reward the employee inappropriately in connection with any business decision or transaction, and the gift is unsolicited.

## **Zanbato Securities LLC's Conflicts of Interest and Other Disclosures**

A conflict of interest can be defined as an interest that might incline a broker-dealer or its Associated Person to consciously or unconsciously make a recommendation that is not disinterested. Zanbato has adopted policies and procedures reasonably designed to appropriately prevent, limit, or mitigate conflicts of interest that may arise between Zanbato, its Associated Persons and Zanbato affiliates, and their respective customers or clients. These policies and procedures include information barriers designed to prevent the flow of information between Zanbato and certain other affiliates. Certain actual or potential conflicts of interest are described below, while others are described throughout this Guide, particularly those relating to fees and other compensation received by Associated Persons, Zanbato, and its affiliates.

### **Other Services Provided by Zanbato**

In addition to the services provided by Zanbato to its brokerage clients, Zanbato provides other financial services to individuals and entities. These services may include, but are not limited to, traditional investment banking services. Zanbato receives compensation for these services.

## **Section 5:**

### **Protection of Client Information**

Zanbato's policy mandates that confidential information, including client information, be safeguarded from misuse, misappropriation, and improper dissemination. Zanbato maintains policies and procedures designed to protect client information in accordance with applicable laws, rules and regulations, and each firm's mandate, including training our employees, physically locating our employees to minimize potential breaches of confidentiality, and applying technology controls. More specifically, confidential information is made available only to persons who have a need to know such information in connection with the duties they carry out or the services they perform.

Additionally, we regularly train our employees on, and hold them accountable for, the appropriate handling of confidential information. Furthermore, we manage our technology so that entitlements by employees to access confidential information held in electronic form are approved only after review and are regularly reviewed for appropriateness. Systems holding confidential information are secured against, and continually monitored for, potential external threats, and actual or suspected incidents are promptly escalated and remediated. Finally, the use of confidential information by affiliates and service providers is carried out in strict compliance with federal, state, and other financial privacy laws.

*At Zanbato, we appreciate your giving us the opportunity to work with you and thank you for your kind time and consideration. For additional information on any Zanbato service, please visit our website: [www.zanbato.com](http://www.zanbato.com).*