



## **WRAP FEE TRADING DISCLOSURES**

### **IMPORTANT INFORMATION ABOUT PENN CAPITAL'S PLACEMENT OF WRAP FEE ACCOUNT CLIENT TRADE ORDERS AND OUR "TRADE AWAY" PRACTICES**

The following disclosure provides information regarding our trading practices, specifically the use of trade away transactions (as described below) and certain costs relevant to these practices. It is not a comprehensive description of all of our trading policies and procedures. Additional information and disclosures also are available in our Form ADV Part 2A.

Penn Capital offers asset allocation portfolios for a range of investment objectives and risk tolerances that can be bought through wrap fee programs at dually registered brokerage and investment advisory firms (referred to hereafter as "Sponsor Firms"). Penn Capital typically has trading discretion over these asset allocation portfolios if they are purchased through the Sponsor Firms as separately managed accounts ("SMAs"). However, Penn Capital does not have this type of trading discretion over portfolios purchased in unified managed accounts ("UMAs") and model delivery programs ("MDPs"). The information provided here relates only to SMA wrap fee clients that have granted Penn Capital trading discretion over their account(s).

"Maintenance Trades," which are those trades that result from a client's request (for example, new accounts, liquidations, cash/security addition or withdrawals, tax harvesting), are typically processed through the client's Sponsor Firm's managed-money desk. In contrast, Penn Capital-directed trades usually result from investment management decisions and which generally affect most, if not all of Penn Capital's clients who invest in a particular strategy (these are typically called across-the-board or "ATB" trades). ATB trades are typically aggregated and submitted via a block trade to a third-party brokerage firm in order to seek best execution (a "Trade Away Transaction"). Penn Capital typically does not execute Trade Away Transactions with Sponsor Firms. We have determined that best execution on our ATB trades is generally achieved through Trade Away Transactions, even though our SMA wrap clients often will incur additional brokerage costs of approximately 2-3 cents per share related to the Trade Away Transactions.

Based on our trading experience and analysis, we currently believe that trading away allows us to achieve best execution for our clients. Trading away has many advantages, including, without limitation, that it can result in less price dispersion, limit exposure to information leakage and high frequency traders, and allow us to be nimble in our trading, thereby avoiding potential costs resulting from delay in trading and price movement in the marketplace. However, there is no guarantee that we can achieve those goals on each, or even a majority, of trades. Penn Capital periodically evaluates our trade execution strategy in an effort to seek trading that results in best execution for our clients.

By trading away our ATB trades, we believe that we can obtain better execution for our clients and reduce price dispersion than when trading with multiple Sponsor Firms. Furthermore, Trade Away Transactions can offer our clients institutional block liquidity that they most likely



would not be able to access if we traded ATB trades through Sponsor Firms. Logical participation strategies, such as volume-weighted average price (“VWAP”) and time-weighted average price (“TWAP”) can be managed in a single block, which helps to achieve better execution than can be accomplished through a series of small transactions with Sponsor Firms. Penn Capital is an active manager and we trade quite frequently for our portfolios, even more so in volatile markets. We believe that trading through multiple Sponsor Firms instead of trading through an institutional block can be detrimental to a client’s portfolio performance if the trades cannot be executed in a timely manner.

For the reasons stated above, Penn Capital has determined that best execution should be sought differently for ATB trades than for Maintenance Trades. Penn Capital believes that ATB trades are in most cases better executed through block trading in Trade Away Transactions, while Maintenance Trades are usually better executed directly through the clients’ Sponsor Firms.

For additional information about our trading practices, please see our Form ADV Part 2A, which is provided to clients. Our Form ADV Part 1A and Part 2A is publicly available at <http://www.adviserinfo.sec.gov/>. You may contact Penn Capital at 215-302-1500 or on [www.penncapital.com](http://www.penncapital.com) if you would like a copy of our most recent Form ADV Part 2A, or if you have any questions regarding our trading practices.