

# Form ADV Part 2A: Disclosure Brochure

March 1, 2024

## Alethea Capital Management, LLC

8223 SE 30<sup>th</sup> ST, Mercer Island, WA  
98040

Phone: (858) 926-2058

Fax: (858) 800-4802

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

### Item 1: Cover Page

This Part 2A to Form ADV (“Brochure”) provides information about the qualifications and business practices of Alethea Capital Management, LLC (hereinafter “we”, “our”, or “us”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”). Registration does not imply a certain level of skill or training but only indicates that we have registered our business with state and federal regulatory authorities, including the SEC. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact us at (858) 926-2058. Additional information about our firm is also available on the SEC’s website at [adviserinfo.sec.gov](http://adviserinfo.sec.gov).

**Item 2: Material Changes**

In accordance with regulatory requirements and to ensure full transparency, we are required to inform you of any material changes to this brochure (“Firm Brochure” or “Brochure”) since our last updated amendment dated December 07, 2023. We have revised Item 4 to reflect the discontinuation of the Alethea Biotech Fund II, LP effective December 31, 2023. Additionally, Item 10 has been updated to reflect the following changes:

- Avaron Capital Management, LLC is no longer the advisor to the Alethea Fulcrum Fund, LP and Alethea Medtech Fund, LP.
- Alethea Capital Management, LLC is a Washington State Limited Liability Company and the advisor to the Alethea Fulcrum Fund, LP and Alethea Medtech Fund, LP.

Item 12 has been updated to reflect Charles Schwab & Co. as the primary broker and custodian, following the merger with TD Ameritrade Institutional.

These changes can be found on pages 4, 8, and 9 of this brochure.

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## Item 4: Advisory Business

### Description of the Advisory Firm

We are an investment adviser that began our business operations in March 2011. Tony Hsu is the principal owner of the firm.

This Brochure describes the business of our firm. Certain sections will also describe the activities of one or more supervised persons. Supervised persons include any of our officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other persons who provide investment advice on our behalf and is subject to our supervision or control.

### Types of Advisory Services

Our services include financial planning, consulting, and investment management. Prior to providing investment advisory services, we require the clients to sign an investment management agreement that sets forth the terms and conditions under which we render our services. Neither party may assign an agreement without the consent of the other party.

Clients can engage us to manage all or a portion of their assets on a discretionary basis. Our investment management services typically include a broad range of comprehensive financial planning services. We allocate client assets in accordance with the client's investment objectives which may include different types of investments. Additionally, we may recommend to certain clients who are properly qualified, investment in private placement securities which may include debt, equity, and/or pooled investment vehicles if it is consistent with the clients' investment objectives. Additionally, we provide advice about any type of investment held in a client's accounts.

We may also render non-discretionary investment management services to clients relative to variable life/annuity products they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, we either direct or recommend the allocation of client assets among various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

We tailor our advisory services to the individual needs of our clients. We consult with each client initially and thereafter on an ongoing basis to determine their investment objectives, needs and goals, and financial situation, and any changes hereto, and ensure their portfolios are tailored accordingly. Clients are also advised to promptly notify us of any changes in their investment objectives, needs and goals, and financial situation, or if they wish to impose any reasonable restriction upon our management services. Assets under management are typically invested in one or more of our investment strategies and therefore, many of our clients' account holdings will be similar.

### Recommendation of Affiliated Funds

We may recommend to certain clients who are qualified investments in one or more of our affiliated private pooled investments funds. Our affiliated funds include: Alethea Fulcrum Fund, LP, and Alethea Medtech Fund, LP (collectively, "Alethea Funds").

### Wrap Fee Program

We do not offer wrap fee programs.

### Assets Under Management

As of December 31, 2023, we had in total \$167,885,983 of assets under management, all of which were managed on a discretionary basis.

**Item 5: Fees and Compensation****Advisory Fees**

We provide investment management services for an annual fee based upon a percentage of the value of assets under management (“Management Fee”). The Management Fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. We do not, however, receive any portion of these commissions, fees, and costs. The Management Fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed as of the last day of the previous quarter. The Management Fee varies between 0.50% and 2.00% depending upon the market value of the assets managed and the type of services to be rendered.

If deposits or withdrawals in excess of \$100,000 are made after inception of a billing period, the fee payable with respect to those assets will be prorated to reflect the change in portfolio value. For the initial billing period, the fee will be calculated on a pro rata basis. In the event a client relationship is terminated, the fee for the final billing period will be prorated through the effective date of termination and the unearned portion will be refunded to the client, as appropriate.

In our sole discretion, we may negotiate to charge a lesser fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

**Additional Fees and Expenses**

In addition to and exclusive of the advisory fees, clients may incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions. Brokerage practices are described in Item 12 below. Additional charges may include securities brokerage commissions, transaction fees, custodial fees, charges imposed directly by a mutual fund or ETF, as disclosed in the fund’s prospectus (e.g., fund-related management fees and other expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions.

**Fee Debit**

Clients will generally provide us with authority to directly debit advisory fees from their accounts. The qualified custodians for the client accounts have agreed to send statements to the clients no less than quarterly that details all account transactions, including payment of our advisory fees.

**Account Deposits and Withdrawals**

Clients may make deposits and withdrawals to/from their account at any time, subject to our right to terminate the account. Deposits may be in cash or securities provided that we reserve the right to liquidate any transferred securities or decline to accept particular securities deposited into the account. Clients may make a withdrawal after providing us with prior notice and subject to the usual and customary securities settlement procedures. However, since we design the portfolios as long-term investments, such withdrawal may impair the achievement of the client’s investment objectives. We may consult with clients about options and implications of transferring securities. Clients are advised that when securities transferred in are liquidated, they may be subject to transaction fees, fees imposed directly by mutual fund or ETF (i.e., contingent deferred sales charge) and/or tax ramifications.

**Item 6: Performance-Based Fees and Side-by-Side Management**

We may also render investment management services to certain qualified clients for a performance-based fee (“Performance Fee”) with the requirements set forth in applicable laws, rules, and regulations. For those who are qualified, the Performance Fee is charged in addition to the Management Fee. The Performance Fee is charged

up to 20% of the account's net performance, subject to reaching an agreed-upon hurdle rate and a perpetual high-water mark. The Performance Fee is charged annually, in arrears, based on the net appreciation of a client account at the end of the calendar period.

This fee arrangement raises a conflict of interest where there may be an incentive for us to make investments that are riskier or more speculative than would be the case absent a Performance Fee arrangement or to favor accounts that pay a Performance Fee. There are procedures in place to ensure that any recommendations made to clients are in their best interests regardless of a Performance Fee or other type of fee arrangement.

### Item 7: Types of Clients

Our client base includes the following types of clients:

- Individuals
- High net worth individuals
- Trusts and estates
- Charitable organizations
- Corporations and other business entities
- Pooled investment vehicles

### Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

#### Methods of Analysis

We utilize the following primary methods of analysis:

- ***Fundamental analysis.*** Fundamental analysis concentrates on factors that determine a company's value and expected future earnings. Factors include a company's financial condition, capabilities of management, earnings, new products and services, and its competitive position in the market. Using fundamental analysis involves the risk that the market will fail to reach expectations of perceived value.
- ***Technical analysis.*** Technical analysis attempts to predict a future stock price or direction based on market trends. The assumption is that the market follows discernible patterns and trends and if such patterns and trends can be identified, then a prediction can be made. Use of technical analysis involves the risk that markets do not always follow patterns and trends and relying solely on this method may not work long term and even if such pattern or trend will eventually reoccur, there is no guarantee to accurately predict such reoccurrence.
- ***Quantitative analysis.*** Quantitative analysis involves the application of mathematical methods to financial problems. Using statistical or mathematical algorithms, portfolios may be optimized for risk/return characteristics. Use of quantitative analysis involves risks that are similar to those of technical analysis since many inputs stem from historic mathematical patterns.

#### Investment Strategies

We generally recommend one or more of the following investment strategies based on the clients' individual investment needs:

- Domestic Equity
- Domestic Long/Short

- Global Macro Multi-Strategy
- Global Dynamic Income

From time to time, we may strategically implement strategies other than those mentioned above based on the particular investment needs of a client.

In addition to following individual markets, categories, and indicators, we seek out opportunities in the alternative investment and private placement industry. Our due diligence process involves rigorous analyses to identify managers and strategies that meet a certain criteria: investments in unique opportunities, provides a competitive advantage relative to their peers, and offers competitive pricing. These investments are complementary to our management services or to traditional investments in equities, bonds, and real assets.

We evaluate every potential investment based on how it contributes toward the clients' ultimate goals. Developing a financial plan or investment strategy tailored to each client's specific situation is an important part of that process. Therefore, we offer complimentary planning services for clients as part of their advisory fee arrangement. Some services offered include cash flow management, education planning, retirement planning, investment planning, risk management and insurance planning, tax planning, estate planning and business succession planning for business owners.

### **Risks**

All investments are subject to various types of risks. Accordingly, there can be no assurance that client portfolios will be able to meet their investment objectives and goals or that investments will not lose money. Below is a description of the major risks that may be involved with our investment strategies:

- **Mutual Funds and ETFs.** Investments in mutual funds or ETFs involve risk, including the loss of principal. Mutual funds and ETFs are subject to secondary market trading risks. Shares of mutual funds and ETFs are listed for trading on an exchange, however, there can be no guarantee that an active trading market for such shares will develop or continue. There can be no guarantee that an exchange listing for a mutual fund or ETF or the ability to trade its shares will continue or remain unchanged. Shares of mutual funds or ETFs may trade on an exchange at prices above or below their most recent net asset valuation (NAV), which is the price for which an investor would buy or sell the mutual fund or ETF. The per share NAV of a mutual fund or ETF is calculated at the end of each business day and fluctuates with changes in the market value of the mutual fund's or ETF's holdings. Trading prices of these shares may differ significantly from NAV during periods of market volatility, which may, among other factors, lead to shares trading at a premium or discount to NAV.
- **Options.** We may recommend the use of option trading for certain clients. Options allow us to hedge or limit certain losses on the clients' holdings as well as to buy or sell a security at a certain price other than the current market price. Clients pay a fee for the options. If an option falls out-of-the-money (i.e., the market price of the security does not justify buying or selling the security at the option price), the client will lose the fee.
- **Market Risks.** The profitability of a significant portion of our recommendations may depend, to a great extent, upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that we will be able to accurately predict those price movements.
- **Use of Private Pooled Investment Vehicles.** We may recommend to certain clients, investments in privately placed pooled investment vehicles (such as hedge funds or venture capital funds). Managers of

these private investment vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the investment vehicle. Additionally, since these investment vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. Clients will receive a private placement memorandum and/or other documents explaining such risks.

#### Management Through Similarly Managed Accounts

We may manage client accounts by allocating assets among various securities on a discretionary basis using one or more investment strategies previously described. In doing so, we will buy, sell, exchange and/or transfer various securities based upon the investment strategy. This type of management complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the investment strategy, with a safe harbor from the definition of an investment company.

An investment strategy may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the investment strategy are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to clients may be limited. For example, various mutual funds or insurance companies may limit the ability to buy, sell, exchange or transfer securities consistent with the investment strategy. As further discussed in Item 12, investment opportunities are allocated among clients on a fair and equitable basis.

#### **Item 9: Disciplinary Information**

We are required to disclose all material facts of any legal or disciplinary events material to a client's or prospective client's evaluation of our advisory business or integrity of our management. There are no disclosures pursuant to this item.

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

We are required to disclose any relationship or arrangement material to our advisory business or to clients with certain related persons. Alethea Capital Management, LLC is the investment advisor to the Alethea Funds.

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

We and our associated persons are permitted to buy or sell securities that are also recommended to clients consistent with our policies and procedures.

We have adopted a "Code of Ethics" that sets forth the standards of conduct expected of our associated persons and requires compliance with applicable securities laws. In accordance with Section 204A of the Investment Advisers Act of 1940 ("Advisers Act"), the Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by us or any of our associated persons. The Code of Ethics also requires that certain of our personnel (referred to as "access persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings. Unless specifically permitted in the Code of Ethics, none of our access persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any client. When purchasing or considering purchasing any security on behalf of a client, no access person may affect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when selling or considering the sale of any security on behalf



of a client, no access person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: direct obligations of the U.S. Government, money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements, shares issued by mutual funds or money market funds, and shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients who wish to review our Code of Ethics in its entirety may contact us to request a copy to be provided to them.

## Item 12: Brokerage Practices

We generally recommend clients to utilize Charles Schwab & Co., Inc. ("Schwab"), Member SIPC, as the primary broker and custodian for their accounts, especially following the merger with TD Ameritrade. Schwab now encompasses the services previously offered by TD Ameritrade Institutional, a division of TD Ameritrade, Inc., member FINRA/SIPC. Our recommendation considers factors such as the combined entity's financial strength, reputation, execution, pricing, research, and service. As a result of this merger, our primary broker/custodian enables us to access a wide range of mutual funds without transaction charges and other securities at nominal or zero transaction charges. Schwab Advisor Services, serving independent investment advisors, includes the custody, trading, and support services of Schwab.

### **Best Execution.**

Commissions paid by clients comply with our duty to obtain "best execution." Clients may pay commissions that are higher than what is charged by another qualified financial institution to affect the same transaction where we determine that the commissions are reasonable in relation to the value of brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of the broker-dealer or custodian's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. We seek competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions. We periodically and systematically review our policies and procedures regarding the recommendation of broker-dealers and custodians in light of our duty to obtain best execution.

### **Directed Brokerage**

Clients may direct us in writing to use a particular broker-dealer to execute some or all of their transactions. In that case, clients will negotiate terms and arrangements for the account with that broker-dealer, and we will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts we manage. As a result, clients may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to our duty of best execution, we may decline a client's request to direct brokerage if, in our sole discretion, such directed brokerage arrangements would result in additional operational difficulties. Client transactions will generally be affected independently unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may, but are not obligated to, combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among clients, differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among clients on a prorated basis to the purchase and sale orders placed for each client on any given day. To the extent we determine to aggregate client orders for the purchase or sale of securities, including securities in which our supervised persons may invest, we shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the SEC. We shall not receive any additional compensation or remuneration as a result of the aggregation. In the event we determine that a prorated allocation is not appropriate under the

particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (may be due to unforeseen changes in the account assets after an order is placed); (iv) with respect to a sale transaction, allocations may be given to accounts that are low in cash; (v) in cases when a prorated allocation of a potential execution would result in a de minimis allocation in one or more accounts, the account(s) may be excluded from the allocation; (vi) the transactions may be executed on a prorated basis among the remaining accounts; and (vii) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts at random.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist us in our investment decision-making process. Such research generally will be used to service all clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing the client's account. The receipt of these products or services as well as the allocation of related benefits poses a conflict of interest since we do not have to produce or pay for those products or services.

#### **Software and Support Provided by Schwab**

We may receive from Schwab, at no additional cost, computer software and related systems support, which allow us to better monitor client accounts maintained at Schwab. We may receive software and related support without cost because we render investment management services to clients that maintain assets at Schwab. The software and related systems support may benefit us, but not our clients directly. As part of our fiduciary duty, we always endeavor to put our clients' interests first, however, clients should be aware that economic benefits received by us creates a conflict of interest as these benefits may influence our choice of one broker-dealer/custodian over another that does not furnish similar software, systems support, or services.

Additionally, we may receive the following benefits from Schwab through their respective institutional divisions: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services institutional firms; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

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

We monitor our client accounts on an ongoing basis and conduct periodic account reviews at least quarterly. Such reviews are conducted by our investment adviser representatives. We encourage clients to discuss with us their needs, goals, and objectives and keep us informed of any changes thereto. We contact our clients at least annually to review our previous services and discuss the impact resulting from any changes in their financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular account statements directly from the broker-dealer or custodian for where their accounts are held. In addition, we may periodically send reports to clients that include relevant account and/or market-related information, such as an inventory of account holdings and account performance. Clients are encouraged to compare the account statements they receive from their Custodian with the reports they receive from us.

**Item 14: Client Referrals and Other Compensation**

We are required to disclose any relationship or arrangement where we receive one or more economic benefits from a non-client third party for providing advisory services. In addition, we are required to disclose any direct or indirect compensation we provide for client referrals. There are no disclosures pursuant to this item.

**Item 15: Custody**

Our investment management agreement in addition to the separate agreements with the custodian authorizes us to direct the custodian to debit our fees from the client accounts and remit those fees to us in accordance with the applicable custody rules. Our primary custodians have agreed to send account statements to our clients, at least quarterly, indicating all disbursements from the account including fees paid directly to us.

**Private Funds**

As the General Partner to the Alethea Funds, we are deemed to have custody of such client assets. As such, the funds are subject to an annual audit conducted by an independent public accountant registered with, and subject to regulatory inspection by, the Public Accounting Oversight Board (PCAOB). We are also required to distribute audited financial statements to each investor within 120 days of the fund's fiscal year-end.

**Item 16: Investment Discretion**

Clients grant us discretionary authority over their accounts through a power-of-attorney that is included in the investment management agreement that we engage in with the clients at the start of the advisory relationship. We are considered to exercise investment discretion over an account if we can affect transactions without first having to seek the client's consent. We take discretion over activities such as (i) the securities to be purchased or sold; (ii) the amount of securities to be purchased or sold; (iii) when transactions are made; and (iv) the broker-dealers/custodians to be utilized. Clients may request to limit this authority (such as certain securities not to be bought or sold).

**Item 17: Voting Client Securities**

Where we have accepted responsibility to vote proxies on behalf of clients, we only vote such proxies in the best interest of the clients and ensure that the vote is not a product of an actual or potential conflict of interest. Absent special circumstances, as discussed in our proxy voting policies and procedures, all proxies will be voted consistent with the Proxy Voting Guidelines as also described in our policies and procedures. Clients may request information about how their proxies were voted or request a copy of our proxy policies and procedures by emailing [info@aletheallc.com](mailto:info@aletheallc.com) or by calling us directly at (858) 926-2058.

We have formed a Proxy Voting Committee responsible for monitoring corporate actions, making voting decisions in the best interest of the clients, and ensuring that proxies are submitted in a timely manner. The Proxy Voting Committee will generally vote proxies according to our then current proxy voting guidelines. The guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: (i) approval of independent auditors; (ii) management and director compensation; (iii) anti-takeover mechanisms and related issues; (iv) changes to capital structure; corporate and social policy issues; and (v) issues involving mutual funds. Although the proxy voting guidelines are generally followed, certain issues are considered on a case-by-case basis, depending on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, we devote an appropriate amount of time and resources to monitor these changes. Though clients cannot direct our vote on a particular solicitation, they may revoke our authority to vote proxies on their behalf.

In situations where there may be a conflict of interest in voting proxies due to business or personal relationships that we maintain with persons having an interest in the outcome of certain votes, we take appropriate steps to ensure that proxies are voted in the clients' best interests and are not the product of such conflict.

**Item 18: Financial Information**

We do not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients. There are no disclosures pursuant to this item.