

# Steinberg Asset Management, LLC

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Steinberg Asset Management, LLC (“SAM”). If you have any questions about the contents of this brochure, please contact us at 212-980-0080. 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.

SAM is an SEC registered investment adviser. Registration of an investment adviser does not imply a particular level of skill or training.

Additional information about SAM is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

This brochure, dated March 30, 2011, is the new disclosure document of SAM, prepared according to the new requirements of the U.S. Securities and Exchange Commission. This Brochure is a narrative that is different in form and content to previous Part II of Form ADV, and includes some new information not previously required by Part II. After the initial filing of this brochure, on an annual basis this Item will be used to update, identify and discuss any material changes to the brochure since the last annual update.

A current copy of SAM's Brochure may be obtained via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or by contacting SAM directly at (212) 980-0080.

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## Advisory Business

SAM is an SEC registered investment adviser organized as a Delaware limited liability company with its office located in New York City. SAM was founded in 1982 and is owned by Michael A. Steinberg and the 2001 Steinberg Family Trust. As of February 28, 2011, SAM managed \$2,106,386,000 on a discretionary basis on behalf of approximately 405 clients, including the Private Funds described below.

SAM is a value equity adviser managing separate accounts in small-cap, small-to-mid-cap, mid-cap, and all-cap value equity portfolios for institutions, pensions, endowments, foundations, and high net worth individuals. As part of its advisory business, SAM sub-advises the Sentinel Mid-Cap Value Fund, a mutual fund registered under the Investment Company Act of 1940, as well as a portion of the U.S. sub-fund of Tower Fund, a multiple compartment investment fund organized in Luxembourg. SAM manages all these accounts with the same investment philosophy and process.

SAM also serves as investment manager, and general partner in the case of limited partnerships, to three unregistered pooled investment vehicles: ARC Fund LP, a Delaware limited partnership, ARC Fund Ltd., a Cayman Island exempted company, (the “ARC Funds”) and SAMCO Partners, L.P., a Delaware limited partnership (“SAMCO Partners”); hereafter referred to collectively as the “Private Funds”. SAM manages these vehicles under mandates consistent with their respective investment objectives and offering documents; these mandates differ from the mandate for SAM’s separate account clients.

Clients may request that SAM tailor its advisory services for them to include restrictions and special objectives which SAM will accommodate so long as SAM believes implementation of the request will not unduly interfere with or disadvantage the requesting client or other existing clients. Typical examples of client requests for their portfolio include:

- Limiting maximum individual position sizes;
- Limiting maximum sector exposure;
- Excluding “sin stocks” such as alcohol, tobacco and gambling companies;
- Excluding foreign ordinary stocks;
- Directing all or a portion of trading to certain broker(s);
- Maintaining a specific cash position.

While SAM does not sponsor any wrap fee program, it does serve as a manager for other wrap fee programs offered by brokerage and financial service firms. SAM manages accounts which are part of wrap fee programs using the same investment philosophy and process as non-wrap fee clients. In a wrap program, clients pay a single fee to the wrap sponsor which covers some or all of the following services: portfolio management, custody, administration, commissions for trades executed by the sponsor (or an affiliate of the sponsor), and selection of portfolio managers. The fee paid by the client is not based directly upon transactions in the client’s account. Wrap-fee clients either have a direct contractual relationship with SAM, or receive SAM’s advisory services through a contract entered into with the sponsor. Advisory fees may be paid to SAM by the wrap

sponsor or directly by the client. Wrap-fee clients generally instruct the advisor to execute transactions through the wrap-fee sponsor.

SAM relies on wrap sponsors and their financial advisors to fulfill certain responsibilities with regard to wrap program clients. Generally, wrap sponsors assume tasks such as: (1) ensuring SAM's advisory services are suitable for the client's investment objectives; (2) monitoring and evaluating SAM's performance; (3) delivery of SAM's Brochure and Privacy Notice; and (4) communicating performance, reports and other information to the client.

The terms of each client's account in a wrap program are governed by the client's agreement with the wrap program sponsor and its disclosure documents. Wrap program clients are urged to refer to these documents for further information.

SAM is headed by Michael A. Steinberg, Managing Partner. Jason Kesselman, Megan Kulick and Justin Steinberg are members of the Portfolio Management Team and have each been named Partners in SAM's Partner Participation Plan (the "Plan"). The Plan gives Partners a guaranteed portion in the profits of the firm on an annual basis. The Plan formally recognizes the contributions of these professionals, incentivizes them over the long-term and strengthens the alignment of interests of our investment team with those of our clients. Partners under the Plan do not receive an equity or voting interest in SAM. Additional Partners may be named under the Plan in the future.

## **Fees and Compensation**

SAM's advisory fees are agreed to in advance pursuant to a written investment advisory contract with separate account clients. SAM has adopted the following basic advisory fee schedule for new clients: 1% of assets under management each year, payable quarterly. Clients may elect to pay either in advance or arrears. Clients may also elect to either be sent a quarterly invoice for SAM's advisory services or have SAM deduct its fee directly from the client's account.

Clients who pay SAM their quarterly advisory fee in advance who terminate their advisory agreement with SAM will receive a refund of the unused portion of their advisory fee. SAM prorates the advisory fee paid in advance to the termination date and refunds the balance.

In certain circumstances, SAM's basic advisory fee may be negotiable. Certain clients pay advisory fees of less than 1% on some or all of the assets managed by SAM based on the size and history of the client relationship with SAM or the relationship which the financial consultant advising the client maintains directly with SAM. Please see below the item entitled *Performance Based Fees and Side-by-Side Management* for a description of the fees and expenses related to the Private Funds.

SAM calculates its quarterly advisory fee for separate account clients based on the value of each client portfolio as of the last business day of the quarter unless a client directs SAM to use a different calculation methodology. Client portfolios hold only market traded securities as well as cash and cash equivalents. All market traded securities are priced using an independent third-party pricing service. SAM currently uses Bloomberg to price all market traded securities. Only the Private Funds may, from time to time, hold non-market traded securities which are priced

according to SAM's valuation procedures in a manner consistent with their respective offering documents.

Separate account clients pay brokerage costs, including commission charges, as well as any applicable custodial fees in addition to the advisory fee they pay SAM. Please see below the item entitled *Brokerage Practices* for further information on costs associated with trading.

Clients generally arrange independently for the cash balance of their portfolios to be invested in money market funds, other registered investment companies or cash management products offered by their custodian bank. Such funds or products may charge management fees or other fees that are in addition to the advisory fee charged by SAM.

Although not part of SAM's regular investment process, SAM may, from time-to-time depending on market conditions, invest client assets in mutual funds or exchange-traded funds (ETFs). Clients may also specifically request that SAM invest a portion of their portfolio in mutual funds or ETFs. SAM will continue to charge its normal advisory fees on those funds invested in mutual funds or ETFs although clients could invest directly in these mutual funds or ETFs to avoid additional fees.

## **Performance Based Fees and Side-by-Side Management**

While SAM historically has not negotiated performance based fees for its separate account clients, SAM may negotiate a performance fee or similar arrangement in the future. A performance fee may give SAM the incentive to manage such an account in a more aggressive manner because SAM is compensated based in part on capital appreciation, so there may be an incentive for SAM to make investments that are riskier or more speculative than would be the case in the absence of such compensation framework. In addition, SAM will receive compensation based on unrealized appreciation as well as realized gains in assets of a performance based fee account.

Managing an account that pays a performance fee may also give SAM an incentive to favor that account over other accounts managed by SAM that do not pay a performance fee. This is because SAM potentially could receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (*e.g.*, an asset-based fee). As a result, SAM could have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

SAM receives performance fees as part of its compensation arrangements with the Private Funds. SAM receives from the ARC Funds a 1% management fee and a 15% performance allocation subject to a hurdle rate equivalent to the yield on three-year U.S. treasuries and a high-water mark. SAM receives a 0.5% administrative fee (1% for new limited partners) and a 20% performance allocation for managing the assets of SAMCO Partners. SAM may waive all or part of the management and performance fee at its sole discretion for investors in the Private Funds. Investors in the Private Funds also bear certain costs such as administration, legal, accounting and tax return preparation fees which are paid directly by the respective funds. These costs reduce the net asset value of the fund and thus the return to the investor.

SAM has implemented policies and procedures to mitigate these conflicts and ensure that investment ideas are distributed fairly, including pre-allocation of trades for separate accounts and

the Private Funds. As part of its procedures, SAM conducts checks on the allocation of investment ideas and the prices received in securities transactions by separate accounts and the Private Funds.

SAM has also implemented policies and procedures to mitigate conflicts between separate account clients invested in SAM's long-only equity strategies and the investment strategies of SAMCO Partners and the ARC Funds as they relate to short selling and hedging activities. At no time will SAMCO Partners or the ARC Funds short individual stocks held in long-only strategy client accounts for the purpose of 'betting against' a position taken for separate account clients. However, SAMCO Partners and the ARC Funds may short ETFs or utilize futures, options, warrants and various derivative instruments that have the economic effect of 'shorting' indices or other market substitutes as part of their hedging strategies. Certain separate account clients may, from time to time, direct SAM to purchase these same ETFs for their individual accounts to maintain market exposure which SAM would otherwise hold as cash during the investment cycle. SAMCO Partners and the ARC Funds may also 'hedge' an investment in an individual security held by separate account clients or take an economic position based on the convergence or divergence in price between share classes or other related securities of the same company or group of companies using options, warrants or other derivative instruments.

## **Types of Clients**

SAM provides investment advisory services to a diverse client base including: (1) high net worth individuals and their associated trusts, IRAs and 401(k) plans; (2) estates; (3) foundations, endowments and other charitable organizations; (4) pensions and profit sharing plans; and (5) other corporations or business entities, both foreign and domestic. SAM also sub-advises the Sentinel Mid-Cap Value Fund, a mutual fund registered under the Investment Company Act of 1940, as well as a portion of the U.S. sub-fund of Tower Fund, a multiple compartment investment fund organized in Luxembourg.

SAM generally requires that an account have a minimum market value of \$1,000,000 to be accepted as an investment advisory client. SAM may waive account minimums in certain situations, including but not limited to, difficult market conditions or a historical relationship with a client or its adviser.

In addition, SAM provides investment advice to the Private Funds. The minimum investment is \$250,000 in SAMCO Partners and \$1,000,000 in the ARC Funds. These minimums may be waived in certain situations. Interests in the Private Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements in private transactions within the United States. This brochure and the material contained herein is not meant to be, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of any of the funds described.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### **Investment Philosophy**

SAM's focus is on creating a portfolio of long-term investments with an asymmetric risk/reward profile. Portfolios are built from the bottom-up through in-house fundamental research. SAM's value-oriented approach and emphasis on asymmetric risk/reward opportunities result in a distinct and concentrated portfolio. SAM's philosophy and process have remained consistent over the firm's nearly 30-year history.

Each SAM portfolio consists of 25 to 40 “Steinberg Stocks.” A Steinberg Stock is defined by an asymmetric risk/reward profile where the risk of permanent loss of capital is small while the opportunity to grow capital over a three- to five-year investment horizon is significant. In addition, for each investment a “free or strategic call” is identified by SAM presenting an incremental opportunity for an additional return in excess of the estimated annualized return target established by our analysts.

**Key components of SAM’s philosophy :**

- Identify “Steinberg Stocks” through deep, bottom-up, fundamental research: SAM relies on in-depth, proprietary, fundamental research to identify truly extraordinary risk/reward opportunities. Maintaining the deep-research culture on which the firm was built is central to SAM’s investment philosophy and process. Members of SAM’s investment team break down each business to determine both the possibility of loss of invested capital and the size and likelihood of achieving SAM’s targeted returns.
- Capital preservation: Capital preservation is an essential component of SAM’s fundamental research and security analysis. Each investment decision incorporates a deep understanding of the strength of a company’s core business and earnings, balance sheet, sustainable free cash flow and the value of its underlying assets, with the goal of limiting the risk of permanent impairment of invested capital.
- Invest with a three- to five-year strategic time horizon: For each company researched and modeled, a target value is established in the context of a three- to five-year investment horizon. SAM believes a longer term investment horizon allows its analysts to take a strategic view of a business. In addition, as a result of the broader investment community’s substantially reduced investment horizon, SAM believes its long-term, patient approach can lead to opportunities that others miss because they are more intently focused on a near-term outlook while potentially ignoring a more substantial opportunity that may develop over a several-year period.
- Identify free or strategic calls: SAM’s in-depth fundamental research seeks to identify one or more “free or strategic calls” in each of its investments. Free calls are events or developments not currently reflected in the security price that represent the opportunity to meaningfully increment the earnings power, asset value and/or cash flows of the business thereby providing an opportunity for outsized returns and further tilting the risk/reward profile in our clients’ favor. *SAM is not implying that an investor receives securities or options in securities for no cost by use of the term “free call”.* Examples of free calls include new products or contracts, regulatory changes that may result in market share gains or higher profitability, or the use of balance sheet assets to generate shareholder value. The key characteristic of a free call is that the potential upside is not yet reflected in the security price, so that if the free call is realized it represents an upside to earnings estimates and valuations, but if it does not transpire, it does not detract from the current value of the security. Typically, free calls develop over the longer term and require more in-depth research to identify, which allows SAM the opportunity to capitalize on the broader investment community’s short-term focus and capture the full impact of the value created.



- Invest with conviction in the understandable: Key to SAM's philosophy and process is investing only in those businesses that can be understood well enough to clearly evaluate the risk/reward profile with a high degree of confidence. SAM will not invest in businesses where the risks cannot be appropriately sized and quantified. These risks can take many forms including: certain liabilities, for example insurance companies with legacy liabilities in asbestos or medical malpractice; certain assets, such as those held by derivative-laden financial institutions; product development risk as is often seen in technology or biotechnology companies.
- Build a concentrated portfolio: Where SAM can clearly identify and evaluate compelling, asymmetric risk/reward opportunities, SAM invests with conviction, typically building focused portfolios of 25 to 40 equity holdings. Absent client-mandated restrictions, individual position sizes generally range from 2% to 5% at purchase with an 8% to 10% maximum (as guidelines dictate), at market.
- Capitalize on short-term volatility: SAM views risk as permanent impairment of invested capital, as opposed to the academic definition of risk as volatility. SAM uses its deep understanding of the value of its investments to take advantage of short-term market volatility, both upside and downside, by building or reducing positions when the market price of the security becomes disconnected from its intrinsic value for reasons independent of the fundamental drivers of the company's value.
- Target high quality management teams: Because SAM takes a longer term strategic view, it seeks high quality management teams with demonstrated records of operating excellence and capital allocation.

### **Absolute vs. Relative Returns**

While SAM is benchmark aware, the firm is not driven by a benchmark in its investment process. Investment decisions are based on providing the best absolute returns to clients over a three- to five-year investment horizon.

SAM's approach is characterized by concentrated, opportunistic portfolios built from the bottom up. SAM's fundamental analysis and focus on the strength of a company's core business, balance sheet, sustainable free cash flow and the value of its underlying assets is designed to preserve and grow capital across a market cycle and generate positive, absolute returns over a three- to five-year investment horizon.

SAM's investment process results in a portfolio that is distinct from the benchmark as demonstrated by its high "Active Share." Active Share measures the difference between a portfolio's holdings and its benchmark.

### **Investment Process**

SAM's investment process is overseen by the Portfolio Management Team under the leadership of Michael A. Steinberg. The Portfolio Management Team also includes Jason Kesselman, Megan Kulick and Justin Steinberg. It is tasked with three key objectives: (1) setting the investment strategy; (2) reviewing new opportunities and overseeing the research process; and (3) constructing the portfolio.

SAM's research process, along with the ongoing monitoring of investments, is structured around daily and weekly meetings among the members of the investment team, as well as continuous, real-time communication between analysts, the Portfolio Management Team, and the trading room. Formalized meetings include:

- Investment Committee Meetings: A weekly meeting with the entire Investment Committee that begins with a discussion of global events and macroeconomic conditions, and then typically moves to a focused discussion on a current or potential investment(s) led by the analyst and Portfolio Management Team member that cover the security.
- Portfolio Review Meetings: A weekly meeting with the entire Investment Committee to review the portfolios during which capital allocation, position sizing, earnings estimates, and the ongoing rationale for owning each security in the portfolio are discussed. Each position in SAM's portfolio is compared on a relative basis to all other positions in the portfolio so that the investment team can make effective, real-time capital allocation decisions based on an expected risk/reward.

In addition, SAM also holds weekly one-on-one meetings with analysts and the Portfolio Management Team, conducts an annual offsite review of SAM's investment process and runs daily morning meetings to review the latest news and events along with their impact on portfolios.

Consistent with SAM's investment philosophy and investment process, SAM may take up to three to twelve months or longer to fully invest a new client portfolio depending on market conditions and the availability of favorable potential returns. In addition, portfolios may hold significant cash positions at various points in the investment cycle. Holdings across client portfolios may differ because SAM separately manages portfolios.

## **Research Process**

***Idea Generation and Preliminary Analysis:*** New ideas can come from any member of the investment team. New ideas often surface as a result of identifying an investment theme, secular trend, or event that will lead to unusually strong long-term earnings growth and/or a step function increase in earnings or free cash flow for a business. Investment team members leverage their existing knowledge of industries and individual companies to explore adjacent industries or find peers in an industry that might be of interest. Investment ideas also come from company competitors, suppliers, vendors and customers. Analysts are also on the lookout for corporate actions that could result in attractive opportunities such as spin-offs, turnarounds, restructurings, or companies conducting significant stock re-purchase programs or emerging from bankruptcy. Periodically, SAM will utilize proprietary screens to identify companies with the specific characteristics consistent with Steinberg Stocks.

Once an idea is identified, a primary analyst is appointed (not necessarily the analyst who identified the opportunity). That analyst engages in preliminary research to determine if the identified security has the characteristics of a Steinberg Stock.

**Full Research Analysis:** Once the investment opportunity has been approved for additional research, deep fundamental research begins. Throughout the investment process, all analysts, including members of the Portfolio Management Team, maintain an open dialogue regarding potential and current investments being evaluated. All members of the investment team conduct primary company research.

SAM's research process is designed to uncover the intrinsic value of a company. Fundamental analysis is SAM's primary research tool in selecting securities. Analysts have frequent meetings with company management and representatives in addition to interviewing customers, competitors, vendors, consultants and industry experts whenever useful and practicable. The information that is garnered through this process is used to build a proprietary financial model for each company in which SAM invests. The modeling is detailed and extensive and typically seeks to "break down" each business unit or segment in a way that sell-side research and the company itself often does not. The modeling includes strategic uses for cash, and often more than one valuation methodology is used.

SAM's process is focused on understanding the key revenue drivers and margin profile of a company's business(es), beyond typical company reporting and sell-side analysis, to identify the primary sources of positive free cash flow. This method of analysis allows SAM's analysts to better understand businesses and engage in a far more robust and involved conversation with management teams. Financial models are instrumental in the development of long-term target values as well as near-term risk measures. Each analyst updates assumptions on individual company models as appropriate in their ongoing reviews and discussions with company management.

**Portfolio Construction:** Following extensive due diligence, the full thesis and body of research is reviewed by members of the Portfolio Management Team to determine whether the company meets the criterion of a Steinberg Stock. As a result of SAM's deep, fundamental research process, which includes ongoing communication with company management, and the asymmetric nature of the risk/reward profiles required for inclusion in the portfolio, investment decisions are typically reached on consensus basis. However, in the event of disagreement Michael A. Steinberg is the final decision maker. Once the investment decision is made, a tactical discussion occurs among the Portfolio Management Team regarding entry and upside price targets, and determining the appropriate position size based on the security's risk/reward profile.

### **Risk Management**

SAM employs a two-step risk management process: a fundamental risk/reward analysis supported by a quantitative risk framework where fundamental analysis is the primary driver of investment decisions. The investment team continually reviews the risk/reward profile of each stock and the overall portfolio.

The fundamental risk/reward analysis entails rigorous due diligence of each investment with the goal of accurately capturing the probability and magnitude of the investment's returns as well as the magnitude and probability of the loss of capital under different scenarios.

The quantitative risk framework supports the fundamental analysis by providing a statistical perspective of the multiple factors driving portfolio performance and risk. Adverse portfolio scenarios are simulated and compared with fundamental expectations of each outcome.

Risk is also managed through position size, limiting positions to an 8% to 10% maximum, at market. Sizing of positions is another mechanism of limiting portfolio risk, with investments exhibiting less attractive risk/reward profiles being sized accordingly. Finally, SAM limits the sector exposure in a portfolio to a general maximum of 25%. Given SAM's absolute return approach, the investment team believes that absolute limits are a more effective way to manage risk than weighting relative to an index.

### **Sell Discipline**

The Portfolio Management Team will sell, or reduce a position in a security, either when it sees the expected return profile for a company failing to materialize, or when it believes the return profile has been realized and the valuation of the company's shares largely or fully reflect the opportunities that were once believed to be unrecognized in the share price.

There are a number of reasons that an investment objective may not be met: the economic or competitive environment might change, management's execution could be disappointing, or in a worst case scenario, management proves to be less than forthright or to not have an appropriate assessment of the company and the task at hand.

SAM will most often reduce a position size, and allocate capital to other investment opportunities as it sees its objectives for the company and the share price realized, since the appreciating price alters the risk/return trade-off in a manner that makes other opportunities more compelling.

### **Risks**

While SAM seeks to limit risk as described above, investing in any securities involves the risk of loss that clients should be prepared to bear. A client could lose money over short or even long periods. Clients should expect the value of their portfolio and total return to fluctuate within a wide range, like the fluctuations of the overall stock market. SAM seeks to manage this risk appropriately. SAM in no way guarantees performance or results. Investors with SAM should be aware of the following risks:

- ***Stock Market and Selection Risk.*** The stock market may go down in value, and may go down sharply and unpredictably. The stocks selected by SAM may underperform the stock market or other funds with similar investment objectives and investment strategies. Stock market risk is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- ***Stocks of Small and Mid-Size Companies Risk.*** The stocks of small- and mid-capitalization companies typically involve more risk than the stocks of larger companies. These smaller companies may have more limited financial resources, narrower product lines, and may have less seasoned managers. In addition, stocks in these companies may

trade less frequently and in lower share volumes, making them subject to wider price fluctuations. Less liquidity in small and midsize companies may hinder SAM's ability to sell these securities at the most opportune time compared to larger, more liquid companies.

- **Concentration Risk.** SAM manages concentrated portfolios, meaning that client portfolios may hold fewer securities than a diversified portfolio and may take larger positions in individual securities. As a result, client portfolios may be more affected by the performance of a particular security than a fund investing in a broader range of securities.
- **Value Investing.** Value stocks can react differently to issuer, political, market and economic developments than the market as a whole and other types of stocks. Value stocks tend to be inexpensive relative to their earnings or assets compared to other types of stocks. However, value stocks can continue to be inexpensive for long periods of time and may not ever realize their full value.
- **General Foreign Risk.** Investments in foreign stocks and stocks issued by U.S. companies with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include: (1) fluctuations in foreign currencies; (2) withholding or other taxes; (3) trading, settlement, custodial and other operational risks; and (4) the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments more volatile and potentially less liquid than U.S. investments.

Additionally, investors in the Private Funds should read the Risk Factors described in the respective offering materials which detail the risks specific to investing in the Private Funds, in particular:

- **Leverage; Interest Rates; Margin.** The Private Funds may borrow funds from brokerage firms and banks in order to be able to increase the amount of capital available for marketable securities investments. In addition, the Private Funds may in effect borrow funds through entering into repurchase agreements, and may “leverage” their investment return with options, swaps, forwards and other derivative instruments. The amount of borrowings which the Private Funds may have outstanding at any time may be large in relation to its capital. Consequently, the level of interest rates, generally, and the rates at which the Private Funds can borrow, in particular, will affect the operating results.

In general, the use of short-term margin borrowings by the Private Funds results in certain additional risks to the Private Funds. For example, should the securities pledged to brokers to secure the Private Funds' margin accounts decline in value, the fund could be subject to a “margin call”, pursuant to which the Private Funds must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the Private Funds' assets, the Private Funds might not be able to liquidate assets quickly enough to pay off its margin debt.

- ***Illiquid Investments.*** The Private Funds may invest in securities and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists, certain of which may be allocated to special accounts. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable and the Private Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over the counter markets. The Private Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. An investment in the fund is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.
- ***Derivative Instruments.*** The Private Funds may use various derivative instruments, including options, futures, forward contracts, swaps and other derivatives which may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses.

## **Disciplinary Information**

Other than the single event described below, SAM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

SAM held voting and investment discretion over shares of a Bermuda-registered company that trades both on the Oslo Børs in Norway as well as on the NASDAQ. At the time SAM began purchasing substantial number of such shares on behalf of its clients, it retained Norwegian counsel to advise it whether such holdings are subject to any filing obligations in Norway. At such time, SAM was advised by Norwegian counsel that SAM was not subject to any filing obligations in Norway. Subsequently, in 2008, applicable Norwegian law was changed so that SAM would be subject to certain filing obligations as its client accounts passed certain ownership thresholds of such shares. One such threshold was passed in 2008; however, SAM did not learn of this change in Norwegian law until the fall of 2009 when it, at its own initiative, undertook to update its diligence on Norwegian filing requirements. Upon learning of this change in Norwegian law, SAM promptly made the required filings with the Oslo Børs. Substantial information about SAM's interest in this company was at all relevant times publicly available through SAM's Schedule 13G and Form 13F filings. As a result of this late filing, the Financial Supervisory Authority of Norway, while acknowledging that it seemed that SAM had no intention of misleading the market, imposed a violation charge of 150,000 NOK (approximately \$26,000) on SAM. This did not affect in any way our investment approach in general or as it relates to Norwegian or other foreign companies.

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

SAM, its principals and employees do not have any current relationships or arrangements with other financial services companies that pose material conflicts of interest.

SAM is the sponsor of the Private Funds, which are unregistered pooled investment vehicles. SAM may from time to time recommend to certain clients that they invest in the Private Funds.

Interests in the Private Funds, which are collective investment vehicles, are not registered under the Securities Act of 1933, and the Private Funds are not registered under the Investment Company Act of 1940. Accordingly, interests in the Private Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements in private transactions within the United States. More information about SAMCO Partners and the ARC Funds is available in their respective offering documents. This brochure and the material contained herein is not meant to be, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of any of the funds described.

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

SAM has adopted a Code of Ethics (“Code”) in order to mitigate potential conflicts of interest. All SAM employees are covered by the Code. Below is a summation of the intent of SAM’s Code which is designed to ensure that its principals and employees:

- Act with integrity and in an ethical manner with the public, clients, prospective clients, employers and other participants in the global capital markets;
- Place the interests of clients, and the interests of SAM above their own personal interests;
- Adhere to the fundamental standard that employees should not take inappropriate advantage of their position;
- Avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with the Code;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities; and
- Comply with applicable provisions of the federal securities laws.

SAM’s Code includes formal policies and procedures governing personal trading, prevention of insider trading, political contributions, receipt and giving of gifts and outside activities.

Subject to Code requirements, SAM’s principals and employees may actively engage in trading on behalf of their own personal accounts, including in securities also held by client accounts. This practice may create a situation where the SAM’s employees are in a position to materially benefit from the sale or purchase of those securities and thus pose a potential conflict of interest. Prohibited practices include “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation), “front running” (i.e., personal trades executed prior to those of the SAM’s clients to take advantage of potential price changes or limited liquidity resulting from subsequent SAM trades in the same security) as well as other potentially abusive practices. SAM’s personal trading policies and procedures are designed to prevent and detect such abuses.

At no time may SAM's principals or employees short individual securities or related securities held in client portfolios, including the Private Funds, or take derivative positions that have the same economic effect as 'betting against' client held securities. Additionally, employees must hold for at least 30 days any security held in client portfolios and employees may not trade in a security if it is included on SAM's current interest list as a potential investment for client portfolios or is otherwise restricted from trading by the Chief Compliance Officer. SAM's personal trading policy and procedures also require that employees: (1) pre-clear certain personal securities transactions; (2) report and certify personal securities transactions on at least a quarterly basis; (3) certify personal securities holdings (initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest and certify such holdings; and (4) report any violations of the Code to the Chief Compliance Officer.

SAM itself does not trade securities for its own account.

A complete copy of SAM's Code may be obtained upon request by any current or prospective client by contacting SAM's Chief Compliance Officer, Steven Feld, at 212-980-0080.

SAM also sponsors the Private Funds. While SAM manages these under different mandates than SAM's separate account clients, they may hold, including in higher proportions, the same securities as the portfolios of separate account clients. Michael A. Steinberg and members of his family maintain, directly and indirectly, significant investments in the Private Funds. Additionally, other SAM employees may from time to time invest in the ARC Funds.

SAM has implemented policies and procedures to mitigate conflicts arising out of these investments to ensure that investment ideas are distributed fairly, including pre-allocation of trades for separate accounts and the Private Funds. As part of its procedures, SAM conducts regular checks on the allocation of investment ideas as well as the timing of and the prices received for securities transactions by separate accounts, SAMCO Partners and the ARC Funds.

SAMCO Partners may from time to time invest in ARC Fund LP in which case SAMCO Partners will not be charged either a management fee or performance fee by ARC Fund LP.

## **Brokerage Practices**

SAM typically has full discretion to select brokers and negotiate commissions for client trades. In certain instances, such as for clients from wrap programs, SAM will accept direction from clients or agree to limitations with respect to SAM's discretion as to which brokers are to be used and what commissions are to be paid. Any such direction or limitation must be in writing.

Clients which, in whole or in part, direct SAM to use a particular broker to execute transactions for their accounts should be aware that, in so doing, they may adversely affect SAM's ability to, among other things, obtain volume discounts on bunched orders or to obtain best price and execution. Consequently, the cost of directed transactions may be greater. Further, clients who direct SAM to use particular brokers may not participate contemporaneously, or at all, in certain opportunities available to other clients. Transactions for directed accounts are generally placed only after transactions for non-directed accounts have been completely filled. As a result, directed accounts may receive the same securities at materially different prices and may not receive the



manager's full intended investment experience. Finally, clients should be aware that the aggregate impact of requiring directed brokerage may result in overall performance that differs from accounts which do not direct brokerage.

With respect to transactions over which SAM has full discretion to select brokers, it is SAM's policy, consistent with investment considerations, to seek the most favorable price and execution for brokerage orders in light of current market conditions. Commissions on brokerage transactions are generally subject to negotiation.

In seeking best execution for trades on behalf of its clients, SAM may instruct an executing broker to allocate, or step out all or a portion of a transaction to another broker. The broker to which SAM has stepped out a portion of the trade would then settle the designated portion of the transaction, and the executing broker would settle the remaining portion of the transaction that has not been stepped out. Each broker would receive a commission or brokerage fee with respect to that portion of the transaction that it settles.

SAM seeks, but is not obligated, to bunch orders for the purchase or sale of the same security for client accounts where SAM deems this to be appropriate, in the best interests of the client accounts, and consistent with applicable regulatory requirements. When a bunched order is filled in its entirety, each participating client account will participate at the average share price for the bunched order on the same business day, and transaction costs shall be shared pro rata based on each client's participation in the bunched order. When a bunched order is only partially filled, the securities purchased will be allocated on a pro rata basis to each account participating in the bunched order based upon the initial amount requested for the account, except as described below, and each participating account will participate at the average share price for the bunched order on the same business day. A strict pro rata allocation may cause certain accounts that are custodied with broker/dealers such as Pershing Advisor Solutions LLC to pay additional ticket costs if the order is filled through multiple partial transactions.

Exceptions to strict pro rata allocation of partially filled orders may include, without limitation, the avoidance of a client's holding odd lots or similar de minimis numbers of shares, avoidance of discrepancies in percentages of ownership in securities across accounts, or the payment of additional ticket costs charged by broker/dealer custodians such as Pershing Advisor Solutions LLC. In such cases, SAM will increase or decrease the amount of securities that would otherwise be allocated to each account by reallocating the securities in a manner which SAM deems fair and equitable to clients over time.

SAM trades from time to time in over-the-counter ("OTC") equity securities. Most equity securities traded by SAM on the OTC are traded on an agency basis or with a commission. On occasion, SAM will place OTC equity transactions on an agency basis where there may be a "market maker" available; as such, clients will be charged commissions in addition to the broker's spread which is included in the offer or bid price of the security.

In choosing brokers to effect transactions, SAM considers any research, statistical or other information or services, including their coverage of various industries, the information systems offered by such brokerage firms and the timing and accuracy of their delivery of statistical

information provided by such other brokers which enhance SAM's investment research and portfolio management capability generally.

Accordingly, SAM shall not be required or deemed to have the duty to obtain the lowest brokerage commission rates available or to combine or arrange orders to obtain the lowest brokerage commission rates available on transactions for its clients. If the amount of commission charged by a broker is reasonable in relation to the value of the brokerage functions and services provided by such broker to SAM, SAM may direct brokerage transactions to such broker notwithstanding the fact that such broker charges higher commissions than those another broker might charge.

In evaluating brokers for executing trades, SAM considers market conditions, the nature of the order, and various other factors, including but not limited to those listed below:

- execution price
- commission
- general trading expertise
- electronic trading capabilities, access to algorithms and FIX connectivity
- responsiveness
- providing market and company color and updates
- minimizing market impact
- accessing liquidity, including dark pools
- anonymity
- speed, accuracy and frequency of trade updates
- value of research and brokerage services provided
- reputation, integrity and perceived counterparty risk
- settlement risk
- maintaining the relationship and trading abilities with the broker

SAM also effects transactions through several brokers which pay for research services provided by third parties in accordance with Section 28(e) of the Securities Exchange Act of 1934, commonly known as soft dollars. SAM receives a benefit when it utilizes client brokerage commissions to obtain research or other products and services because SAM does not have to produce or pay for the research or other product or service. These services may consist of written or oral research reports from either brokers directly or independent research providers regarding particular companies, industries or general economic conditions or of other services which aid SAM in fulfilling its investment decision-making responsibilities. These services include but are not limited to: (1) security pricing services; (2) electronic information management systems, including SAM's trade order management system; (3) data sets and tools used to manipulate such data that are used to identify and analyze securities, including risk modeling and portfolio analysis; (4) products used to communicate trade information to brokers and other parties in order to properly settle trades; and (5) specialized financial and industry publications and news services. Research services furnished or paid for by brokers and through whom SAM effects transactions may be used by SAM in servicing all of SAM's accounts and not all such services may be used by SAM in connection with the accounts which paid commissions to the brokers providing the services. Commissions paid to brokers providing such research may be higher than those charged

by brokers not providing such services. On occasion, a product or service furnished to SAM by a broker-dealer is useful in making investment decisions regarding client accounts and also provides administrative or other non-Section 28(e) eligible assistance to SAM, sometimes known as 'mixed-use' items. Under such circumstances, SAM makes a reasonable allocation as follows: the portion of such service or specific component which provides assistance to SAM in its investment decision-making responsibilities is obtained from the broker-dealer with commissions paid on client portfolio transactions, while the portion of such service or specific component which provides non-research assistance is paid for by SAM with its own resources.

SAM may have an incentive to select a broker based on our interest in receiving research or other products or services, rather than on client's interest in receiving the lowest commission. SAM will effect transactions through brokers providing third party research services only if the commissions charged by such brokers are reasonable in relation to the value of the brokerage functions and research services provided and only if the execution prices received on such trades are comparable to prices received from execution only brokers on similar trades.

For those accounts custodied at Pershing Advisor Solutions LLC and Charles Schwab & Co., Inc. and certain other custodians/broker-dealers, SAM may "trade-away" from the custodians/broker-dealers to generate soft dollar credits at another broker-dealer or to achieve best execution in the best judgment of SAM considering all the facts and circumstances of the trade. Such trades result in trade-away fees of \$15 (\$19 for foreign trades) at Pershing Advisor Solutions LLC and between \$10 and \$25 at Charles Schwab & Co. and are in addition to any commissions or mark-up/mark-downs charged by the brokers actually executing the transactions.

SAM may utilize certain brokers that have pension or financial consulting divisions that influence the process by which entities select investment advisers (including SAM). When SAM places trades through a broker and also maintains a relationship with the pension or financial consulting division of the broker, the relationship could be construed as a potential conflict of interest that would incentivize SAM to place more trades through the broker in exchange for increased exposure through the pension consulting division. However, SAM mitigates this potential conflict by allocating brokerage to the counterparties subject to its fiduciary duty to seek best execution on client trades.

## **Review of Accounts**

SAM's Portfolio Management Team monitors SAM trades on a daily basis and reviews portfolio holdings as described above in *Methods of Analysis: Investment Process and Research Process*. In addition, a separate Client Portfolio Manager reviews individual client accounts on an ongoing basis in consultation with the Portfolio Management Team. Client accounts are also reviewed periodically by SAM's senior management for performance evaluations and by the compliance department for compliance with guidelines and client objectives.

Each advisory client receives a written monthly or quarterly report of their account from SAM, which typically includes a summary of holdings and market values and performance history as well as other information which clients may request be included in their reports. Clients also receive written or are given online access to monthly or quarterly account statements directly from their custodian bank. Custodian banks serve as the official source of books and records for all

client accounts. Clients are urged to compare the reports provided by SAM with the statements provided by their custodian.

## **Client Referrals and Other Compensation**

SAM does not currently engage any outside solicitors or compensate any outside persons for client referrals.

## **Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks. SAM may be deemed to have custody of the client funds which clients have explicitly authorized SAM to directly debit its advisory fees. SAM believes based upon due inquiry that all clients either receive written statements directly from their custodian no less frequently than quarterly or receive online access to their account, including monthly or quarterly statements, after following their custodians procedures for giving consent to electronic delivery/access. SAM encourages clients to compare information contained in reports provided by SAM with their custodian statements.

Investors in the Private Funds will not receive statements from the custodian. Instead, each fund is subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principals and distributed within 120 days of the fund's fiscal year end. Investors in the ARC Funds also receive statements from the independent administrator on a quarterly basis.

## **Investment Discretion**

SAM generally has full discretionary authority with respect to its investment advisory accounts and the Private Funds. Clients may request that SAM tailor its advisory services for them to include restrictions and special objectives which SAM will accommodate so long as SAM believes implementation of the request will not unduly interfere with or disadvantage the requesting client or other existing clients. SAM manages the Private Funds in accordance with their respective offering documents.

## **Voting Client Securities**

SAM's clients typically delegate to SAM the authority and responsibility to vote proxies for the voting securities held in their accounts. Where SAM has been granted the authority and accepted the responsibility for voting proxies, it will determine whether and how to do so, in the case of individual proxies, in accordance with its fiduciary obligations and its Proxy Voting Policy and Procedures (the "Policy") and the proxy voting guidelines adopted under the Policy. SAM reserves the right to amend its Policy at any time. SAM also has proxy voting authority with respect to the Private Funds.

When SAM votes proxies it will do so in the best interest of its clients (defined, for this purpose, as in the best interest of enhancing or protecting the economic value of client accounts and in accordance with its guidelines), considered as a group, as SAM determines in its sole and absolute discretion and in accordance with its guidelines. SAM has retained an industry recognized third-party vendor to assist it with administrative aspects of the proxy voting process as well as to provide research and vote recommendations based on guidelines it has established. SAM

considers numerous factors in its voting decision, including the recommendations of the third-party provider. However, SAM may, at its discretion, vote shares in a manner contrary to the third party's recommendation if SAM feels that is in the best interest of clients. In the unlikely event that SAM is required to vote a proxy that could result in a conflict between clients' best interests and SAM's best interests, SAM will vote according to the third-party's recommendation.

SAM generally will not accept proxy-voting authority from a client if the client seeks to impose client-specific voting guidelines that may be inconsistent with SAM's guidelines or with the client's best economic interest in SAM's view.

SAM does not opine on or complete materials related to client participation in class actions except for the Private Funds. Where possible SAM will attempt to forward class action materials to clients directly should such materials be sent to SAM.

Clients can obtain a complete copy of SAM's Policy as well as reports on how particular proxies were voted by contacting its office at 212-980-0080.

## **Financial Information**

SAM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.