

# Shaker Investments, LLC

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## **FIRM DISCLOSURE BROCHURE**

This brochure provides information about the qualifications and business practices of Shaker Investments, LLC. It is the disclosure statement that Shaker Investments must provide to clients under applicable rules of the United States Securities and Exchange Commission (“**Commission**”). If you have any questions about the contents of this brochure, please contact us at 216-292-2950 or by email at [tamara@shakerinvest.com](mailto:tamara@shakerinvest.com). The information in this brochure has not been approved or verified by the Commission, or by any state securities authority. Shaker Investments is registered as an investment adviser with the Commission. Registration of an investment adviser does not imply a certain level of skill or training. The information in this brochure has not been approved or verified by the Commission or by any state securities authority.

Additional information about Shaker Investments, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm’s CRD number is 119135.

March 29, 2011

# Item 2: Material Changes

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## Annual Update

Shaker Investments, LLC is providing this information as part of our annual updating amendment which contains material changes from our last annual update. This section discusses only material changes since the last annual update which most recently occurred on March 24, 2010.

## Material Changes since the Last Update

The Commission adopted amendments to Part 2 of Form ADV effective October 2010. The newly revised Part 2 consists of Part 2A (the “**Brochure**”) and Part 2B (the “**Brochure Supplement**”). Each update of the Brochure must now include a summary of all material changes since the last annual update.

This Brochure, dated March 29, 2011, is materially different in structure and contains certain new information that our previous brochure did not require. As such, this Brochure is unlike the last annual update in that it is in the form of a brochure, and contains a more narrative discussion of our business, our ownership, the types of services and accounts offered, our fee and compensation structures, our assets under management, our types of clients, our investment strategies and methodologies and risks of loss. In addition, this Brochure contains a summary of our Code of Ethics and a discussion of our personal trading, brokerage practices, account review procedures, custody, investment discretion policies, and policies on proxy voting. The Brochure Supplement provides detailed information on the background, education and experience of our investment professionals.

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# Item 4: Advisory Business

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## Firm Description

Shaker Investments, LLC (also referred to as Shaker Investments, Shaker, or the Adviser) is a fee based investment adviser founded in October 1991 that actively manages equity investment portfolios for clients.

## Principal Owners

Shaker Investments is owned by founder Edward Hemmelgarn.

## Types of Advisory Services

Shaker Investments is primarily an equity manager specializing in the stocks of growth companies. Shaker manages and makes the investment decisions for the funds in client accounts. This means we direct the purchase and sales of any assets as we deem appropriate, and the reinvestment or holding for reinvestment, of any proceeds of sales or trades, or dividends that may be paid into the account.

Our clients' accounts are individually managed accounts that are invested according to a model portfolio strategy that is defined and managed by our portfolio managers Edward Hemmelgarn and Sasha Kostadinov. We currently offer two long-only model portfolio investment strategies. These are our All-Cap portfolio and our Small-Cap portfolio strategies. The All-Cap portfolio strategy invests in growth companies over a wide range of market capitalization that includes large (more than \$10 billion in market value), medium (\$3 billion to \$10 billion in market value) and small (less than \$3 billion in market value) capitalization stocks. The Small-Cap portfolio strategy is focused on the small capitalization end of the equity markets. All stocks purchased for our clients trade on U.S. stock exchanges, though a number of them may be companies headquartered outside of the United States.

Shaker Investments, LLC is also the Investment Manager for the Shaker Investments Tower Fund, L.P. which is open only to accredited investors (the "**Tower Fund**"). The Tower Fund is a long- short hedge fund which invests in stocks that trade on a U.S. stock exchange.

Additional information on the portfolio management strategies and the Tower Fund, L.P. is provided in the section entitled "Investment Strategies."

Shaker has an arrangement with Wealthfront, Inc. pursuant to which Shaker provides small-cap model portfolio information which Wealthfront uses to manage certain of their clients' assets.

## Tailored Relationships

We are dedicated to providing excellent service to our clients, and work with clients to tailor our services to fit their needs. This may take the form of the maintenance of cash balances for periodic withdrawal, investment in an area of interest to a client, or the inclusion of a fixed income (bond) component as directed by the client. We are happy to meet with clients to review account performance, refine investment goals and to discuss individual client needs. We encourage our clients to discuss how we can best serve their needs.

## Wrap Fee Programs

We do not participate in any wrap fee programs at this time.

## Client Assets

As of December 31, 2010, Shaker Investments managed a total of \$84.3 million in assets for our clients. The managed discretionary assets were divided as follows:

1	All-Cap Growth Equity Composite	\$35.6 million
2	Small-Cap Growth Equity Composite	\$13.7 million <sup>1</sup>
3	Shaker Investments Tower Fund, L.P.	\$34.9 million

<sup>1</sup>\$3.4 million of the assets in the Tower Fund are managed utilizing Shaker's Small-Cap Growth Equity Composite strategy. This \$3.4 million is excluded from this number, as it is included in the Tower Fund's assets as set forth above.

# Item 5: Fees and Compensation

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## Description

Individual Client Accounts are charged a quarterly fee of 0.25% of the amount of the account balance under management, for a total of 1% on an annual basis. Fee levels for accounts greater than \$10.0 million may be negotiable.

Fees charged to Limited Partners in the Tower Fund, L.P. are described in detail in the offering memorandum.

## Fee Billing

Fees for our long-only strategy clients are billed, and are due, at the beginning of each calendar quarter, for that quarter. For the first quarter an account is managed by Shaker the fees are prorated over the number of days the account was under management in the quarter and billed in arrears along with the fee for the following quarter. Thereafter, Shaker will bill the client's account directly on a quarterly basis, in advance, for its management fees. The account balance used in the calculation is the net balance in the account as of the closing day of the prior quarter. Any additional funds deposited into a client account during a quarter are billed on a prorated daily basis for the quarter. The prorated billing is in addition to the amount charged for the next regular quarterly billing, and will appear in the next billing. If an account is closed during a quarter, the client will receive a refund of any unearned fees that have already been paid to Shaker. As part of our Management Agreement Clients authorize the custodian for the account to deduct the Shaker Investments management fee directly from the account upon presentation of an appropriate invoice showing the calculation of the fee. A copy of this invoice will also be sent to each client concurrently. If a client uses more than one custodian for a single account, Shaker may send a single invoice to one custodian even if fees reflected on that invoice relate to securities held by other custodians as well. Unless otherwise arranged in advance by the Client with the custodian(s), the Client, and not the custodian(s), will be responsible for verifying

the accuracy of the fee calculations on Shaker's invoices and for reconciling payments by the custodian with the amounts of the invoices. We urge clients to check all Shaker statements carefully against the regular quarterly statement prepared by their custodian. A Shaker Investments client service representative is available to assist you and to help answer any questions related to your statement.

### **Other Fees**

Client accounts are not charged any other fees by Shaker Investments, LLC. Account trading transaction and brokerage costs charged by the custodian or other broker-dealer are born by the Client in accordance with the client's account agreement with the custodian. Shaker Investments does not benefit from transaction and brokerage costs incurred in client accounts except to the extent of "soft dollars" as discussed under Item 12 - "Brokerage Practices." Shaker Investments does not benefit in any way from the custody fees charged by custodians. For further information refer to the sections entitled "Brokerage Practices" and "Custody."

With respect to Shaker's agreement with Wealthfront, Inc., Shaker Investments is paid a percentage of the assets managed by Wealthfront for which Wealthfront utilizes Shaker's small-cap composite strategy.

### **Fees Paid in Advance**

The only fees paid in advance by Clients are the quarterly account management fee described in the "Fee Billing" Section above.

### **Additional Compensation**

We do not accept nor are we or any of our employees paid compensation for the sale of any securities or other products.

## **Item 6: Performance-Based Fees & Side-by-Side Management**

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### **Sharing of Capital Gains or Capital Appreciation**

Investors who are Limited Partners in the Tower Fund may be charged an incentive performance fee. This fee is fully defined in the offering memorandum. The performance fee in the Tower Fund may encourage Shaker to take additional risks in making investments in order to increase that fee. Because Shaker Investments can earn a performance fee based on the performance of the Tower Fund, there is a potential that Shaker investment performance in the Tower Fund may result in a greater benefit to Shaker Investments than the same performance in an individual account managed by Shaker. There is, therefore, a potential that Shaker may have an incentive to direct certain investment opportunities to the Tower Fund in preference to the other accounts managed by Shaker. In addition, because Shaker charges a performance fee in the Tower Fund, it has incentive to place higher risk, more volatile investments in the Tower Fund to earn higher performance fees.



However, Shaker has policies and practices that are intended to address these conflicts of interest. First, as of December 31, 2010 a majority of the assets held in the Tower Fund were invested by the Shaker management team. This aligns the interest of the Tower Fund's investment managers directly with the interests of the limited partner clients. Second, the incentive to take more risk because of the performance fee is mitigated by fact that the Tower Fund's incentive performance fee structure uses a "high water mark" so that any losses experienced by limited partner clients must be recovered before an incentive performance fee is charged. Finally, the total client assets under management is small enough such that there is no investment opportunity that is so limited in size that Shaker's investment managers would be unable to include it in all the Shaker portfolios for which it met the investment criteria. See also Item 10 – Other Financial Industry Activities and Affiliations. There is no incentive performance fee of any kind for Individual Account clients.

## Item 7: Types of Clients

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### Description

Shaker Investments Clients may be individuals, trusts, institutions, pension funds, endowments or other entities. We manage taxable margin and non-margin accounts, Individual Retirement Accounts (IRA), Roth IRA's and other non-taxable accounts.

### Account Minimums

Shaker Investments accepts for management Client Account relationships (one or more accounts owned by the same individual) totaling a minimum of \$200,000. Tower Fund has a minimum for new limited partners of \$750,000.

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

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### Methods of Analysis

Shaker Investments is a research driven firm. Our investment decisions are based on fundamental research on economic trends, investment themes and individual companies that we perform as well as information available from other analysts, economists and the federal government. We start our analysis by considering and analyzing economic and demographic trends because changes in populations and economic conditions strongly influence the prospects of industries and individual companies. An understanding of the economic growth outlook and demographic factors helps us formulate and recognize growth investment themes and, based on those themes, the industries and then the companies that are likely to benefit. For example, in the 1990's, recognizing that the cost of computing and data communications were declining dramatically every year, and understanding the factors driving those cost reductions lead us to the realization that the demand for computers and the data networks used to connect them was very likely to grow. This, in turn, suggested that companies in the

computer, semiconductor and networking equipment industries should be of interest as investment candidates. Accordingly, during this period, Shaker's All-Cap Growth Equity Composite was overweighted with companies in the technology sectors which we believed would be the beneficiaries of these trends.

Once we have identified industries of interest, we identify companies of interest within the target industries. We evaluate the companies to determine which ones we believe are superior to their competition and, most importantly, which ones we believe are superior growth investment candidates. In making this evaluation we use a variety of information sources and criteria. The information sources may include Commission filings by the company, meetings with company management, contacts with professionals in the same industries, meetings and presentations at investment and trade conferences, business publications, online databases and research obtained from brokerage firms. Among the evaluation criteria is a group of eleven characteristics developed by Shaker that helps determine what we call "fundamental superiority". The group is shown below.

### **Looking For 11 Characteristics of Superior Growth Companies**

#### **1 Growth**

- Minimum Industry Revenue Growth of Approximately 5-10% Per Year
- Company Growth Faster than Industry, ~10% - 25% Per Year
- Company Can Grow Both Near Term and Long-term

#### **2 Sustainable Competitive Advantage**

- Lower Cost Structure
- A Brand Name
- Limited Competition Due to Regulatory Constraints
- Unique Application Knowledge or Patents
- A Dominant Market Position

#### **3 Strong Management**

- Cohesive, Strong Management
- Realistic, Timely Responses to Challenges

#### **4 Market Leadership**

- Strong Niche Products or Services
- Ranking in Top Three Market Share

#### **5 Focused**

- No Conglomerates
- Management Focused on One Business

#### **6 Many Customers and/or Many Products**

- Not Dependent on a Few Customers

- Not Dependent on a Few Products

## **7 Quality Leadership in Products or Services**

- Companies Recognized by Customers as “Being the Best at Meeting Their Needs”
- Determined by Discussions with the Company, Customers and Competitors

## **8 New Products/Service Development**

- Significant and Consistent Development of New Products

## **9 Positive Earnings or Cash Flow**

- Not Dependent on External Equity Capital to Remain in Business
- Management Team Focused on Making Money

## **10 Conservative Financial Statements**

- Conservative Balance Sheet – Especially Assets
- Significant Cash Positions
- Strong Cash Flow

## **11 Significant Insider Ownership**

- Management Owns a Significant Interest in the Company
- Management’s Interests are Aligned with Shareholders

We screen and evaluate a large number of companies in order to identify 150 to 200 companies that rate highly on the above criteria. We focus our research on this subgroup. **Value** is a key consideration. Even a company that meets all of our criteria for industry, quality, sustainable advantage and growth can be a poor investment if we purchase the shares at too high a price. For this reason, as part of our process, we analyze the valuations of each company’s stock relative to the market, the industry, other companies in the subgroup, each company’s expected growth in earnings and its historical valuation using a variety of measures. Among these measures are price to earnings (P/E both trailing and prospective), price to book, price to sales, P/E to earnings growth rate, and price to cash-flow. Our ultimate goal is to select for our portfolio strategies companies that we believe have superior businesses, are capable of sustaining above market rates of growth and whose potential value is not fully reflected in the company’s current valuation.

In the following sections we further describe our investment strategies and discuss how we construct portfolios, our buy and sell disciplines, our historical performance and the risks inherent to equity investing.

## **Investment Strategies**

The investment strategies for Shaker’s All-Cap Growth Equity, Small-Cap Growth Equity and Tower Fund portfolios are discussed in the following sections. A more complete discussion of

the Tower Fund and the investment strategies it employs are contained in the offering memorandum which is furnished to interested accredited investors on a privately solicited basis.

### **All-Cap Growth Equity Composite**

The All-Cap Growth Equity Composite portfolio was begun on October 1, 1991. The portfolio strategy's goal is to achieve superior long-term equity returns by investing in growth stocks. The portfolio is concentrated and typically consists of some 30 to 60 long positions. These positions are in stocks of United States based companies that the portfolio manager believes are capable of achieving 15%-20% annual growth in earnings over a three to five year period. In addition to U.S. based companies, a small number of foreign based stocks or ADR's may be included in the portfolio. All investments, both domestic or foreign, trade on U.S. stock exchanges. Shaker seeks to enhance the after tax returns realized by portfolio clients by investing in companies with excellent long-term potential and deferring the recognition of gains (when not in conflict with the goal of maximizing returns) until they can be recognized and taxed as long-term capital gains. Investments are chosen from companies with market capitalizations in the range of \$50 million to more than \$300 billion, effectively all capitalization ranges. All investments are researched prior to investment and closely followed after being put into the portfolio. Stocks are chosen in accordance with the methods of analysis described above in the section entitled "Methods of Analysis." Stocks will be sold from the portfolio and replaced when the portfolio manager believes a better investment is available, when the portfolio manager believes the company is overvalued relative to its expected growth potential, or to limit portfolio concentration. The portfolio will usually be fully invested in equities. The portfolio manager may raise cash as a percent of the portfolio by selling investments when he believes market conditions warrant having increased cash levels. For the twelve month period ending December 31, 2010 the All-Cap Growth Equity Composite across all currently managed accounts had an average portfolio turnover of 40.84%.

As an all-cap product, it is appropriate to compare this strategy with indices that have exposure to stocks of all capitalizations. We think that the Russell 3000 Index and the NASDAQ Composite Index are appropriate comparables. The table below compares the average annual returns of the All-Cap Growth Equity Composite with the returns for the Russell 3000 Index and the NASDAQ Composite Index over the one, three, and five year periods, and since inception of the All-Cap Composite (October 1, 1991) ending December 31, 2010. The table reflects returns for the All-Cap Growth Equity Composite after deduction of a 0.25% management fee every quarter (or 1.0% annually).

The risks of this investment strategy include the information we've used may prove inaccurate, our assumptions may prove wrong, market conditions may change adversely and rapidly and geo-political events could develop in ways that cause equity markets to decline. The All-Cap Growth Equity portfolio is more concentrated than indices or portfolios that contain hundreds of stocks. This concentration can present additional risks.

## Comparative Average Annual Returns for Periods Ending December 31, 2010

Period / Return	1 Year	3 Year	5 Year	Since 10/1/1991*
All-Cap Growth Composite**	21.84%	3.96%	5.51%	12.94%
Russell 3000 Index	16.90%	-2.00%	2.77%	8.07%
NASDAQ Composite Index	18.13%	1.00%	4.71%	9.16%

\* All-Cap Growth Equity Composite date of Inception

\*\*All-Cap Growth Equity Composite returns shown have been computed after deducting a management fee of 0.25% per quarter. Past performance is not predictive or indicative of future results.

### Small-Cap Growth Equity Composite

The Small-Cap Growth Equity Composite portfolio was established July 1, 2004. The portfolio strategy seeks to achieve superior long-term equity returns by investing in small capitalization growth stocks. In general, Shaker defines small capitalization as companies with a range of market values between \$50 million and \$3 billion. The portfolio manager's objective is long-term capital appreciation while outperforming the Russell 2000 Growth Index with volatility similar to the Russell 2000 Growth Index. The portfolio is concentrated with typically 25-40 positions. These positions are in stocks of United States based companies that the portfolio manager believes are capable of achieving 15%-20% annual growth in earnings over a three to five year period. In addition to U.S. based companies, a small number of foreign based stocks or ADR's may be included in the portfolio. All investments, both domestic and foreign, trade on U.S. stock exchanges. In pursuing superior long-term gains, Shaker tries to emphasize stock picking rather than sector selection. The sector weightings in the Small-Cap Growth are tracked and the portfolio manager will seek to limit the portfolio's sector concentrations to within plus or minus 10% of the sector weightings of the Russell 2000 Growth Index sector weights.

Shaker seeks to enhance the after-tax returns realized by portfolio clients by investing in companies with excellent long-term potential and deferring the recognition of gains (when not in conflict with the goal of maximizing returns) until they can be recognized and taxed as long-term capital gains. For the twelve month period ending December 31, 2010 the Small-Cap Growth Equity Composite had an average portfolio turnover of 66.38%. All investments are researched prior to investment and closely followed after being put into the portfolio. Stocks are chosen in accordance with the methods of analysis described above in the section entitled "Methods of Analysis". Stocks will be sold from the portfolio and replaced when the portfolio manager determines that a better investment is available, the company is overvalued relative to its expected growth potential, or in order to limit portfolio concentration. The portfolio will usually be fully invested in equities. The portfolio manager may raise cash as a percent of the portfolio by selling investments when he believes market conditions warrant having increased cash levels. Small-cap stocks are usually less liquid and often more difficult to buy and sell than larger capitalization stocks. For these reasons, investing in small capitalization stocks can present increased risk of loss.

As a small-cap stock portfolio, it is appropriate to compare the returns of the Small-Cap Growth Equity Composite to the returns of small-cap indices. We think that the Russell 2000 Index and the Russell 2000 Growth Index are appropriate comparables. The table below compares the average annual returns for the Small-Cap Growth Equity Composite with the total returns for the Russell 2000 Growth Index and the Russell 2000 Index over the one, three, and five year periods ending December 31, 2010 and for the period since the composite's inception. The table reflects returns for the Small-Cap Growth Equity Composite after deduction of a 0.25% management fee every quarter (or 1.0% annually).

#### **Comparative Average Annual Returns for Periods Ending December 31, 2010**

Period / Return	1 Year	3 Year	5 Year	Since 7/1/2004 *
Small-Cap Growth Equity Composite**	34.32%	5.74%	7.10%	9.14%
Russell 2000 Growth Index	29.08%	2.17%	5.29%	6.00%
Russell 2000 Index	26.84%	2.20%	4.46%	5.83%

\* Small-Cap Growth Equity Composite date of inception.

\*\*Small-Cap Equity Growth Composite returns shown have been computed after deducting a management fee of 0.25% per quarter. Past performance is not predictive or indicative of future results.

#### **Shaker Investments Tower Fund, L.P.**

The Shaker Investments Tower Fund began operations on January 1, 1999. The Tower Fund is a long-short hedge fund which invests in growth stocks that trade on a U.S. stock exchange. Shaker Investments, LLC is the fund manager. The fund's objective is long-term capital appreciation with high tax efficiency. The fund typically holds 40 to 50 long positions and 10 to 20 short positions. Stocks are selected across all market capitalizations, but the fund often has an above-market weighting in small and mid capitalization stocks. Margin is the only leverage used by the fund. Historically the fund has ranged between 60% and 130% net long. Realized taxable income has mainly been in the form of long-term capital gains. All investments are thoroughly researched prior to investment and closely followed after being put into the fund. Long stocks are chosen in accordance with the methods of analysis described above in the section entitled "Methods of Analysis". Short positions may consist of individual stocks that the fund manager believes are overvalued, or ETFs selected as a hedge on one or more long positions. Shorting of stocks and ETFs involves increased risk of loss. Investment in less liquid small capitalization stocks may also involve increased risk of loss. The Tower Fund invests in both of these asset classes, and incurs increased risk by doing so. The Tower Fund also restricts withdrawals thereby imposing additional risks. The Tower Fund has a performance incentive fee structure that also increases risk.

The Tower Fund is offered on a private placement basis to qualified investors. Accordingly, performance data of the Tower Fund is not included here.

### **Risk of Loss**

Investing in corporate securities involves unpredictable risk of loss that clients should be prepared to bear. Past returns are not an indicator of future performance. For this reason, we advise our clients not place in their managed account funds required to meet ongoing living expenses or possible emergency needs and only invest funds for management that they are able and willing to place at risk of substantial loss.

Investing in the Tower Fund entails additional risks which include risks involved in shorting stocks and in more frequent trading which increases transaction costs. The risks are further discussed in the fund's offering memorandum.

## **Item 9: Disciplinary Information**

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### **Legal and Disciplinary**

There have been no legal or disciplinary events to disclose.

### **Criminal or Civil Action**

There have been no criminal actions and no material civil actions involving Shaker Investments.

### **Administrative Proceeding**

There have been no administrative proceedings involving Shaker Investments.

### **Self-Regulatory Proceeding**

There have been no proceedings of any self-regulatory organization involving Shaker Investments.

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

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### **Broker-dealer or Registered Representative**

No employees of Shaker Investments are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer

### **Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Adviser or Associated Person**

No employees of Shaker Investments are registered or have application pending to register as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities.



## Material Relationships or Arrangements with Financial Industry

Shaker Hedge G.P., LLC is the General Partner of the Tower Fund and is owned by principals and employees of Shaker Investments. The Tower Fund is a Limited Partnership whose investments are managed by the research and portfolio management team of Shaker Investments. These individuals from Shaker Investments are also investors in the Tower Fund. The Tower Fund is a private investment fund, in which only accredited investors may invest as limited partners. Shaker may solicit clients, on a private basis, to invest in the Tower Fund. At the time of this disclosure document, approximately 16% of Shaker Investments' clients are invested in this fund.

Because Shaker recommends the purchase of the Tower Fund to some clients, and the General Partner of the Tower Fund is owned by principals and employees of Shaker Investments, and Shaker Investments is the investment adviser for the Tower Fund, this may result in one or more conflicts of interest. As a result of these relationships, Shaker Investments and its principals will receive compensation from the Tower Fund as a result of their positions as investment adviser and General Partner to the fund. This means that Shaker Investments and its principals each have an incentive to recommend that Shaker clients purchase partnership interests in the Tower Fund, even if such an investment would not be appropriate for such client. In order to address these potential conflicts of interest, Shaker has adopted a Code of Ethics and compliance policies and procedures. Shaker's policies and procedures state that all Shaker employees recognize that they have a fiduciary responsibility to all of our clients and it is their duty to place the interests of the client first, and that all personal investment activities be conducted in such a manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility. Furthermore, Shaker discloses to all investors and prospective investors in the Tower Fund the nature of the fund's ownership structure and incentive fee arrangement. For additional potential conflicts of interests and the policies of Shaker that address such matters, see Item 11 – "Invest in Same Security Recommended to Clients" for a description of potential conflicts of interest that this may create and how Shaker addresses these matters so as to minimize such risks.

## Recommend or Select Other Investment Advisers

Not applicable.

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

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## Code of Ethics

Shaker Investments has established a Code of Ethics which governs the employment and actions of all employees. The Code of Ethics was adopted pursuant to Commission Rule 204A-1, and is meant to ensure that all Shaker Investments personnel are in compliance with



Commission regulations for Registered Investment Advisers. The Code of Ethics requires that employees place the interests of Clients first, and that any and all personal securities transactions by employees at all times avoid conflicts or potential conflicts of interest between themselves and our clients, and do not abuse their position of trust and fiduciary responsibility. A full copy of the text of the Code of Ethics is available upon request. The disclosures and policies cited below are taken from or paraphrased from the Code of Ethics.

### **Recommend Securities with Material Financial Interest**

The policies of Shaker Investments require that no director, officer, general partner or employee of Shaker Investments, LLC shall recommend any securities transaction by any account, including the purchase or sale of a security, without having disclosed his or her interest, if any, in such security or the issuer thereof, including without limitation, (i) his or her direct or indirect beneficial ownership of any security of such issuer, (ii) any contemplated transaction by such person in such security, (iii) any position with such issuer or its affiliates, and (iv) any present or proposed business relationship between such issuer or its affiliates, on the one hand, and such person or any party in which such person has a significant interest, on the other.

### **Invest in Same Securities Recommended to Clients**

The equity investment accounts of all directors, officers, general partners or Advisory Persons of Shaker Investments, LLC are required to be managed by Shaker. These Shaker personnel may own securities that are also owned in client accounts. They are prohibited from trading in securities substantially identical to those held in client accounts if the security is being considered for purchase or sale by the Adviser and from trading securities being considered for purchase in client accounts.

The securities owned by the Tower Fund are traded on the same trading desk as the securities traded for Shaker Investment's clients. In some instances the same securities owned in our small-cap or all-cap strategies are owned in the Tower Fund. In these situations trades for the Tower Fund are handled in the same manner as trades for our other institutional clients. Trading sequence and priority are decided by a rotation that alternates between institutional and individual clients, and within each category is randomly allocated so that no single account is traded in a sequence that gives that account an advantage over any other account. In addition, order execution is alternated during the trading of a security so that no account, including the Tower Fund, receives an unfair advantage. Trading rotation policies are documented in the Adviser's Trading Policy and Procedure Manual and are available to clients on request.

### **Personal Trading Policies**

All trading in the personal accounts of Shaker employees must be done on the Shaker trading desk, documented and pre-approved by a portfolio manager and the Chief Compliance Officer. Either one may withhold approval if they see any conflict or potential conflict with the interests of Shaker's clients.

# Item 12: Brokerage Practices

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## Selecting Brokerage Firms

Shaker Investments does not maintain custody of your assets that we manage. Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or a bank. We often recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we may recommend that you use Schwab as custodian/broker, you may decide to use any custodian/broker you wish. You will open your account with your selected custodian/broker by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. We will be happy to work with the custodian/broker that you select to hold your account.

Generally all trades in individual accounts are executed through the custodian/broker for that account. The client pays the trading execution fee charged by his custodian/broker on each trade according to the agreement in place between the client and the custodian/broker. Shaker does not receive any compensation from these trades.

In Institutional accounts and the Tower Fund, Shaker has more discretion over where a trade is executed. In these cases, we consider a wide range of factors in choosing where to have the trade executed, including, among others:

- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- Availability of investment research and tools that assist us in making investment decisions; See the section entitled “Research and Soft Dollars” below.
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients

## Research and Soft Dollars

In Institutional accounts where we have discretion over where trades are executed, Shaker will often direct those trades to brokers who are providers of investment research that we find valuable in formulating investment decisions. Such research is used to the benefit of all of our clients. Trades executed at brokers in exchange for providing research are generally charged at a rate of \$0.05 per share.

Shaker also executes trades on the Bloomberg Tradebook platform for Institutional accounts. These trades are charged a fee of \$0.04 per share. Shaker receives a “soft dollar” credit of \$0.03 per share on these trades which is accumulated in a “soft dollar account”. The “soft dollars” are used by Shaker to pay for research software and services which help our portfolio managers make better decisions and is beneficial to all of our clients, including individual clients who are not paying for the trades that generate the “soft dollars.”

### **Brokerage for Client Referrals**

Shaker does not steer executions to brokers in exchange for client referrals.

### **Directed Brokerage**

Clients may instruct Shaker to send account trades through their custodial broker for execution. Shaker may allow large institutional clients to direct trades to, not only their custodial broker, but other brokers if this practice is included in such client’s Management Agreement. In the event that a client directs Shaker to execute transactions for their accounts through a particular broker-dealer, this direction will impede Shaker’s ability to obtain best execution for the client. In these circumstances, Shaker will not have the ability to negotiate commissions, obtain volume discounts or otherwise obtain best execution for such client.

### **Order Aggregation**

Where possible, Shaker will bundle trades in a single security executed at the same broker in order to obtain volume discounts on execution costs and to facilitate the speed with which a trade can be executed. When this occurs, all clients receive the average execution price for the total number of shares in the trade (either buy or sell price). Any discount on the execution costs directly benefit each client in proportion to the number of shares traded for the client’s account as a percent of the total number of shares in the bundled trade.

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

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### **Periodic Reviews**

Shaker Investments reviews Shaker’s portfolio performance on a monthly basis to gain a better idea of how we are performing against comparable indices and to help us to better achieve our investing goal of superior long-term capital appreciation for our clients.

In the same way, we encourage our clients to schedule a review with us of their accounts on an annual basis to discuss their investment goals, review account performance and status, discuss our investment strategies or to help us to have a better understanding of how we can help you meet your investing goals.

### **Review Triggers**

Shaker does not apply any specific review triggers for review of accounts.

## Regular Reports

Shaker provides all individual account clients a quarterly report which shows your account's performance for the quarter, and the account's positions and the value of each position. The report for the fourth quarter of the year includes a compilation of income, capital gains, capital losses and dividends for the year which may be used in preparing income tax filings. See "**Custody**" for information concerning reconciliation of account statements.

Investors in the Tower Fund receive a similar quarterly report showing the fund's performance and the value of their capital account at the beginning and end of each quarter. Tower Fund Investors also receive a copy of the annual audit report for the fund, and a form K-1 for preparing and filing income tax returns.

# Item 14: Client Referrals and Other Compensation

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## Economic Benefits

Shaker Investments does not receive compensation from any person other than our clients for providing investment advice to clients.

## Third Party Solicitors

Shaker does, from time to time, use third parties to solicit clients for our individual account portfolio management services. These third parties are compensated by us for bringing in clients. This compensation will consist of a portion of the management fee collected by Shaker from the clients. Shaker bears the cost of this compensation. Clients are not charged a higher fee if they have been brought to us by a third party solicitor.

Sales practices for the Tower Fund are described in the offering memorandum of the Tower Fund.

# Item 15: Custody

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Under government regulations, we are deemed to have custody of your assets if, we are authorized by you to instruct your custodian/broker to deduct our quarterly advisory fees directly from your account. Your custodian/broker maintains actual custody of your assets.

## Account Statements

You will receive account statements directly from your custodian/broker at least quarterly. They will be sent to the email or postal mailing address you provided to the custodian/broker. You should carefully review those statements promptly when you receive them. You will also receive a quarterly statement from Shaker at the postal (or email) address you furnish to Shaker. We also urge you to review our statement for your account and to compare it to the statement

provided by your custodian/broker. If there are any discrepancies or questions, please contact Shaker and your custodian/broker. We will be happy to assist you in reconciling any differences.

## Item 16: Investment Discretion

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### Discretionary Authority for Trading

Shaker has discretionary authority to trade securities in all client accounts as stated in our Management Agreement with the client. This discretionary authority remains in effect for the one year term of the Management Agreement and any subsequent automatic renewals of that agreement. We do accept trading directions directly from clients in writing. For example clients may request the purchase or sale of specific investments, prohibit the purchase or sale of specific stocks, or require that a certain level of cash be maintained in the account. We are ready at any time to discuss your needs and how we can best meet them.

### Limited Power of Attorney

Included in our Management Agreement is a Limited Power of Attorney which formally gives Shaker the discretionary investment authority over the accounts we manage for our clients. The custodian/broker that you have selected is given a copy of the Management Agreement when you become a Shaker Client.

## Item 17: Voting Client Securities

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### Proxy Voting

Shaker does not vote proxies for our individual client accounts. For accounts subject to the Employee Retirement Income Security Act (ERISA) – generally pension fund clients- Shaker will exercise proxy voting rights with respect to the assets in the Account, in accordance with the investment guidelines and policies applicable to the assets in the Account, as provided to Shaker from time to time, in writing, by Client.

In the case of the Tower Fund, Shaker exercises the right and responsibility for voting proxies in accordance with our determination of what is in the best interest of the Tower Fund's Limited Partners.

A copy of Shaker's complete proxy voting policy is available upon written request. In addition, information on how specific proxies have been voted is available upon written request.

## Item 18: Financial Information

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### Prepayment of Fees

Shaker does not require or solicit payment of fees in advance of services rendered. Therefore, we are not required to include a financial statement.

## **Financial Condition**

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. Shaker has no additional financial circumstances to report.