

**Part 2A of Form ADV: Firm Brochure**

Item 1 Cover Page

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**This brochure provides information about the qualifications and business practices of Donald Smith & Co., Inc. If you have any questions about the contents of this brochure, please contact us at (212) 284-0990 or [info@donaldsmithandco.com](mailto:info@donaldsmithandco.com). 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. Registration with a particular authority does not imply any level of skill or training.**

**Additional information about Donald Smith & Co., Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Item 2 Material Changes

Summary of Material Changes for the calendar year ended December 31, 2011:

- 1) The fee schedule for our Large Cap Concentrated Value Equity was changed to:

- 65 basis points on the first \$50 million,
- 50 basis points on the balance over \$50 million.

The previous fee schedule was:

- 100 basis points on the first \$10 million,
- 65 basis points on the next \$40 million,
- 50 basis points on the balance over \$50 million.

- 2) In 2011 we added a semi-annual compliance review to our formal monitoring procedures. Our first semi-annual compliance review was completed on September 22, 2011.

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**A) Description of Firm; Firm Inception; Principal Owners**

Donald Smith & Co., Inc. was formed in 1975 as Home Portfolio Advisors, Inc. The name and ownership of Home Portfolio Advisors, Inc. was changed to its present form in 1983, when it was purchased by Donald G. Smith, President and Founder. We are a registered independent investment advisor since 1975, specializing in managing value equity accounts for large institutions.

We have practiced our investment philosophy since our inception with great success, and have never deviated from our style. We have only one line of business and thus are able to devote all of our time to managing client assets. Our business is simple – we only manage low price/book equities – and this allows us to conduct focused, detailed fundamental analyses of companies we invest in.

We are an independent entity and have no parent organization. We are 100% employee-owned, with 4 owners having stakes in the company. Of these 4 owners, one is a principal owner:

Donald G. Smith, President & CIO.

Our top two personnel, Donald Smith and Richard Greenberg, have worked together for over 31 years.

**B) Types of Services Offered**

As stated above, we have only one line of business – managing value equity accounts for large institutions. We specialize in value investing and our investment advice is limited to this area. We offer five products:

All Cap Value Equity,  
Large Cap Concentrated Value Equity,  
Midcap Value Equity,  
Small Cap Value Equity, and  
Micro Cap Value Equity.

We invest in securities listed on national exchanges, including domestic equities, ADRs of foreign companies and dually-listed companies. We do not utilize any derivatives or any fixed income securities.

**C) Tailoring Services to Clients; Client Restrictions**

Our clients are able to place guidelines and restrictions on their accounts if they choose. Examples of areas that can be restricted upon clients' requests include, but are not limited to:

Cash maximum,  
Individual security weight maximum (at cost or at market),  
Sector and/or Industry weight maximum,  
Foreign Investment / ADR maximum,  
Soft-dollar usage,  
Proxy voting authority,  
Client-directed trade programs,  
Restricted securities, and  
Types of securities \*

Item 4 Advisory Business (continued)

\* Again, we invest in securities listed on national exchanges, including domestic equities, ADRs of foreign companies and dually-listed companies. We do not utilize any derivatives or any fixed income securities.

In addition we allow our clients to select performance-based fees.

**D) Wrap Fee Programs**

We provide investment advisory services for a wrap fee program in our Large Cap Concentrated Value Equity product. The only difference between the wrap accounts and the other client accounts is that all trades executed on behalf of the wrap accounts have to be traded through the broker managing the wrap program at \$0 commission. In all other ways we manage the wrap accounts in the same way we manage all other client accounts.

Our investment advisory fees are included in the total wrap fees charged to these accounts.

**E) AUM – Discretionary vs. Non-Discretionary**

As of December 31, 2011 our total firm assets under management was \$3,720M. The breakdown between discretionary and non-discretionary assets was:

Discretionary:	\$3,720M	*(100% discretionary)
Non-Discretionary	\$0	

Item 5 Fees and Compensation

**A) Fee Schedules**

Our sole source of compensation is the investment management fees paid to us by our clients.

We are an SEC-registered adviser and we only send brochures to Qualified Purchasers, as defined in section 2(a)(51)(A) of the Investment Company Act of 1940. As such, the fee schedules for our products are available upon request.

Generally, we do not negotiate fees. We have most-favored-nations (MFN) clauses in some of our existing client contracts.

**B) Frequency of Billing**

We send quarterly invoices to our clients. At the end of each quarter, the fees are calculated for each client based on their prior quarter's assets and an invoice is sent either by mail or e-mail to the appropriate person(s), as specified by the client.

As we do not have custody of client assets, deducting fees directly from client accounts is not an available method for clients to select.

**C) Other Types of Fees or Expenses**

There are no additional fees or expenses that clients pay to us in connection with our advisory services beyond the quarterly fee payments as described in B above.

Note that all clients, with the exception of the wrap accounts as described in Item 4 D, will incur brokerage and other transaction costs. See Item 12 for additional details.

**D) Fees Payable in Advance (*not applicable*)**

As previously stated, we bill for fees at the end of each quarter. We do not accept pre-paid fees.

**E) Compensation for Sales (*not applicable*)**

Neither the firm nor any supervised person accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## Item 6 Performance-Based Fees and Side-by-Side Management

Performance based fees are available upon request. Currently we manage both accounts with performance-based fee schedules and accounts with our standard, asset-based fee schedules. Managing both types of accounts side-by-side presents opportunities for conflicts of interest, including that as a firm we have an incentive to favor accounts for which we receive performance-based fees.

We are very sensitive to conflicts of interest in all aspects of our business, including side-by-side management. Our clients include mutual funds, public and corporate pension plans, endowments and foundations, and other separate accounts. We have put in place systems, policies and procedures which have been designed to maintain fairness in portfolio management across all our clients. Potential conflicts between funds or types of accounts are managed via allocation policies and procedures, internal review processes, and direct oversight by Donald G. Smith, President.

### **Allocation Policies & Procedures**

We are aware of the potential conflicts of interests among clients and as such, have adopted policies to ensure fairness to our clients.

We manage separate, individual portfolios, each containing various guidelines and restrictions regarding cash levels, market capitalization, foreign securities, maximum position, etc. To gain maximum efficiency in our trading, we have a centralized trading desk. All trade allocation decisions are based on client guidelines and client restrictions (i.e. cash, foreign securities and market capitalization restrictions).

In allocating purchases between similar clients, one or more clients may go first if cash relative to a specific guideline is higher than other client portfolios or if exposure to a sector, industry, and/or the purchased security relative to a specific client guideline is less than other clients. In allocating sales, one or more clients may go first if cash relative to a specific guideline is lower than other client portfolios or if exposure to a sector, industry, and/or the purchased security relative to a specific guideline is greater than other clients. In cases of block trading, purchases and sales are spread proportionately among remaining appropriate clients, depending upon asset size.

To the best of our abilities, we try to allocate a potential trade to all appropriate accounts before trade execution. Portfolio management is a dynamic and time-sensitive exercise and as a result, there could be instances when allocations could be done post-trade.

Additionally, we have developed reason codes to show allocation reasons in our trade order management system and on our paper trade tickets.

### **Trade Allocation Codes:**

A – High Cash Level / Low Cash Level

B – Low Individual Name Exposure / High Individual Name Exposure

C – Low Industry/Sector Exposure Level / High Industry/Sector Exposure Level

### **Internal Review Processes**

Daily, an asset matrix of all of our clients and all of our securities held across all accounts is updated and distributed to all investment personnel. This is reviewed against our list of client guidelines and restrictions to ensure that each holding is distributed appropriately among all client accounts that are eligible to hold it.

Item 6 Performance-Based Fees and Side-by-Side Management (continued)

Additionally, our annual compliance review process includes a forensic test of allocation procedures. We randomly select multiple order tickets from the prior year and verify that the allocation code is selected and that the code selected was appropriate and applied fairly among all eligible accounts.

**Direct Oversight**

As we are a boutique firm, by choice, we have constant supervision and monitoring. Our Chief Compliance Officer, Richard L. Greenberg, oversees all areas of compliance with Donald G. Smith, Chief Investment Officer, as ultimate reviewer of all activities.

## Item 7 Types of Clients

Our clients are sophisticated investors and are considered Qualified Purchasers, as defined in section 2(a)(51)(A) of the Investment Company Act of 1940. The types of clients we have managed money for historically include, but are not limited to:

- Public Pension Plans
- Corporate Pension Plans
- Taft-Hartley Plans
- Foundations
- Trusts / Endowments
- Mutual Funds (sub-advisory)

The minimum account size for all of our products is typically \$50 million.

**A) Methods of Analysis / Investment Strategies**

We are a deep-value manager employing a disciplined bottom-up approach. Generally, we invest in stocks of out-of-favor companies selling at discounts to tangible book value. We try to look for companies in the bottom decile of price-to-tangible book value ratios and a positive outlook for earnings potential over the next 2-4 years.

Fundamental security analysis and basic research are the heart, soul and strength of our firm. We have a centralized research function. Our intensive research tries to determine which of these low price/tangible book value stocks will turn around and achieve their earnings potential. While we do closely follow and analyze broad economic and sector trends, our primary approach is bottom up. We first will find a cheap stock and then see if our industry and economic views support our individual company thesis.

We work as a team on each new company analyzed. Each research staff member has an in-depth knowledge of every holding. Databases include, but not limited to, Bloomberg, Value Line, Capital IQ and Market Guide. While we do receive and read Street research, a majority of our ideas are internally generated and researched.

We focus our in-depth research on stocks selling at discounts to tangible book value. We deduct goodwill and intangibles from stated book value, and do a thorough review of asset quality. Our ultimate goal is to determine how much earnings this asset base can generate looking out 2-4 years. We buy low price/tangible book value stocks that sell at the lowest multiples on these potential earnings. Our initial screens of various databases encompass about 10,000 companies. We eliminate those that do not meet our market capitalization requirements and focus our research on the lowest 10% price/book. A watch list of approximately 300 companies is created and monitored. We closely follow about 100 securities.

Our in-depth research includes time spent reading company documents and speaking/meeting with company management.

Before investing in any company, we try to have multiple phone conversations with company management to familiarize ourselves with their strategies, beliefs and intentions. We will typically start our conversations with investor relations and subsequently speak and meet with upper management. We also talk to competitors, suppliers and customers. Critical topics we discuss include quality of asset base, book value, any hidden writedowns, catalysts that will turn the industry/company around. We focus on a company's earnings potential on a normalized basis.

Analysis of corporate management and governance is also a valuable input in our research process. Often, managements of our securities may be perceived negatively because of temporary cyclical problems. We look for managements that stick to their core business, cut their own costs, do not make anti-dilutive acquisitions, etc.

Note that investing in securities involves risk of loss that clients should be prepared to bear.

**B) Material Risks (general)**

Investing in equity securities is subject to substantial risks which could include a complete loss of investment.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss (continued)

Above all, we are concerned with absolute risk. We define risk as loss of principal. We try to control risk by buying stocks at deep discounts to book value and asset value. Risk is further controlled by not investing in any derivative securities. We invest in securities listed on national exchanges, including domestic equities, ADRs of foreign companies and dually-listed companies.

Individual position size limits depend upon client constraints. Typically, we limit any one holding to about 5% of the portfolio at time of purchase and the maximum industry exposure to about 20%. We usually do not buy more than 10% of the outstanding stock of a company.

Our intense balance sheet analysis and focus on asset quality helps to limit the downside risk. Because we concentrate our universe on the lowest decile of stocks based on price/tangible book value, we can devote our resources to a concentrated universe. We, therefore, feel that we know this universe extremely well--better than our competitors--and this also limits risk.

**C) Material Risks (security type specific)**

We invest in securities listed on national exchanges, including domestic equities, ADRs of foreign companies and dually-listed companies. See B above for information on risks associated with those types of securities.

Item 9 Disciplinary Information

No material legal or disciplinary events for the firm or any supervised person.

Item 10 Other Financial Industry Activities and Affiliations

**A) Registered as Broker-Dealer (not applicable)**

Neither Donald Smith & Co., Inc. nor any of our management persons are registered, or have an application pending to register, as a broker-dealer or a representative of a broker-dealer.

**B) Registered as Future Commission Merchant (not applicable)**

Neither Donald Smith & Co., Inc. nor any of our management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of the foregoing entities.

**C) Other Relationships / Arrangements**

Donald G. Smith, President of Donald Smith & Co., Inc., is a General Partner of Donald Smith Value Fund, L.P. and Donald Smith Long/Short Equities Fund, L.P.

Donald Smith Value Fund, L.P. intends to invest, long or short, in all available asset classes, searching for value-driven ideas that are not in conflict with Donald Smith & Co., Inc. client accounts. Potential securities utilized could include equities, fixed income (including, but not limited to, corporate bonds, government securities, convertible bonds), preferreds, warrants, options, futures, currencies, ETFs, closed-end funds, etc.

Donald Smith Long/Short Equities Fund, L.P. intends to invest, long or short, primarily in equities. Other potential securities utilized could include preferreds, warrants, options, futures, currencies, ETFs, closed-end funds, etc. It automatically replicates all long equity holdings of Donald Smith & Co., Inc. only once a month. On the short side, it generally focuses on those companies that sell at large premiums to book value and high multiples of revenues and earnings.

Both funds are subject to our very strict personal trading policies. Again, we are very sensitive to conflicts of interest in all areas of our business and our long-only Donald Smith & Co., Inc. clients come first in terms of our focus and our service.

**D) Recommendations of Other Investment Managers (not applicable)**

We do not recommend or select other investment advisors for our clients.

As previously stated, we receive one source of compensation – advisory fees payments from our clients.

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

**A) Code of Ethics**

As we are a Registered Investment Adviser, we are subject to rules and regulations promulgated by the SEC. Thus, we are very diligent and thorough when it comes to monitoring our firm and our people. As we are a boutique firm, by choice, the principals have continuous supervision at all levels. Donald G. Smith and Richard L. Greenberg oversee all investments. Richard L. Greenberg is our Chief Compliance Officer.

Furthermore, each employee has a duty to act in the best interest of the firm. In addition to the various laws and regulations covering our activities, it is clearly in our best interest as a professional investment advisory organization to avoid potential conflicts of interest or even the appearance of such conflict with respect to the conduct of our officers and employees. While it is not possible to anticipate all instances of potential conflict, the standard is clear.

As required under Rule 204A-1, and all subsequent amendments to the Rule, we have a comprehensive Code of Ethics, which includes written policies and procedures designed to ensure our compliance with the rules and to enable us to act in the best interests of our clients. Donald Smith & Co., Inc. has a fiduciary duty to its clients which requires each employee to act solely for the benefit of our clients.

Our Code of Ethics sets forth a standard of business conduct that we require of all supervised personnel. It sets ideals for ethical conduct premised on fundamental principles of openness, integrity, honesty and trust. It conveys the value we place on ethical conduct.

In light of our professional and legal responsibilities, we believe it is appropriate to restate and periodically distribute the firm's Code to all supervised employees. As such, we distribute copies to all new employees on their start date and annually we require all employees to sign a certification that they have read and understand the policies and procedures outlined in our Code of Ethics. Our aim is to be as flexible as possible in our organization and our internal procedures while simultaneously protecting our organization and our clients from the damage that could arise from a situation involving a real or apparent conflict of interest. As a general principle, it is imperative that those who work on behalf of our firm avoid any situation that might compromise, or call into question, their exercise of fully independent judgment in the interests of clients. Any questions regarding the propriety of any activity are directed to the Chief Compliance Officer.

While it is not possible to specifically define and prescribe rules regarding all possible cases in which conflicts might arise, our Code is designed to set forth policies regarding employee conduct in those situations in which conflicts are most likely to develop. The following are four fundamental fiduciary principles that govern personal investment activities at our firm:

- A. The interests of our clients must come first. In any decision relating to your personal investments, you must scrupulously avoid serving your own interests ahead of those of our clients;
- B. Personal investments should comport with both the letter and the spirit of this Code, and should avoid any actual or potential conflicts of interest;
- C. Supervised persons should not take inappropriate advantage of their position; and

D. Supervised persons must comply with applicable federal securities laws. This Code does not attempt to identify all possible conflicts of interest, and literal compliance with each of its specific provisions will not shield supervised personnel from liability for personal trading or other conduct that violates a fiduciary duty to our clients.

A copy of our complete Code of Ethics is available to any client or prospective client upon request.

**B) Recommendations with Material Financial Interest (not applicable)**

Neither Donald Smith & Co., Inc. nor any of our related persons recommends to clients, or buys and sells for client accounts, securities in which they or any related person to them has a material financial interest.

**C) Personal Trading**

We have very strict personal trading policies and procedures which are detailed in our Code of Ethics. Specifically, all Access Persons are required to “preclear” all personal securities transactions prior to execution through the compliance department. This includes bonds, stocks (including closed-end funds), ETFs, reportable funds, convertibles, preferreds, options on securities, warrants, rights, etc. for domestic and foreign Securities whether publicly traded or privately placed. The compliance department may also require non-Access Persons to preclear personal securities transactions as he or she may deem necessary and appropriate for compliance with our Code. In addition, the compliance department can withdraw the approval any time, given a rise in conflict of interest as a result of unexpected events taking place regarding the specific security or regarding any client.

At the end of each quarter, all employees sign an acknowledgement that they submitted all personal transactions for pre-clearance for the preceding quarter as required.

Additionally, all Access Persons are required to have duplicate statements for their personal account(s) sent directly to the compliance department. These statements are checked against our Personal Trading Log which is continuously monitored by compliance personnel and updated with each preclearance request.

Our clients always come first in both our service and our trading.

**D) Buying Alongside Clients**

As stated in Item 10, C., Donald G. Smith is a General Partner in two investment partnerships.

Donald Smith Long/Short Equities Fund, L.P. (DS L/S) buys and sells alongside the Donald Smith & Co., Inc. (DSCO) clients only on an automated once-a-month basis. On the first day of each month, the long portfolio for DS L/S is rebalanced against the month-end holdings for the DSCO clients.

All other transactions for DS L/S and Donald Smith Value Fund, L.P. (DSVF) are in securities that are not eligible for the DSCO clients’ portfolios, including shorts, options, bonds, futures, etc.

Again, DSCO clients always come first.

**A) Factors Considered in Broker Selection/Recommendation**

We trade for best execution in order to maximize client performance. As a majority of our stocks have relatively low volumes, we look for natural supply or demand on the other side of any trade. As a result, the selection of a broker/dealer is primarily driven by its ability to find liquidity on any given trade. We try to access all liquidity pools, including various alternative trading sites. This helps us lower our total trading costs, including the lowering of explicit commission costs.

In terms of broker selection, we have an approved broker list. This list has been prepared and approved by the trading desk and the portfolio managers, including Mr. Smith. This list includes execution brokers, client-directed brokers and soft-dollar brokers. These brokers are monitored on a daily basis by the trading desk on each trade execution, being mindful of trade execution price, VWAP, the ability and the time to complete the trade, market impact, liquidity etc. The trading desk continuously monitors and probes the sell-side traders to achieve trade executions that maximize the value of client portfolios.

In addition to this daily review we conduct formal best execution meetings on a quarterly basis. Every quarter our trading desk and our portfolio managers review the approved broker list which contains the amount of commissions generated year-to-date. Discussions include the performance of each broker, the target and actual commissions levels year-to-date, the level of service received, etc. Factors considered in broker evaluation include the broker's ability to minimize total trading costs, level of trading expertise, infrastructure, service provided, etc. Any underperforming broker is eliminated from the approved broker list. New brokers can be added by the trading desk after consulting with the portfolio managers. These reviews are formally documented in our compliance department.

**1. Research and Other Soft Dollar Benefits**

We use client commissions to pay for proprietary and third-party research and market data services. These services are crucial, and strictly and clearly help us in our research and portfolio management processes for our clients. None of these services cover expenses such as overhead, administrative expenses, exam review courses, association membership dues, legal expenses, or items such as travel, meals, hotel, and entertainment expenses associated with attending a research seminar or conference. We do have one mixed-use service for both research and administration. This service is Indata, a portfolio and performance measurement system. The portion used for portfolio management is paid with commission while the portion used for client service is paid in cash. We have reasonably and appropriately made the allocation between portfolio management and administration for this service. Further, all clients benefit from these services regardless of whether they allow us to utilize soft dollar transactions in their accounts.

- a. When using client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services.
- b. Using client brokerage commissions to obtain research or other products may present an incentive to select or recommend a broker-dealer based on the firm's interest in receiving the research or other products or services rather than our client's interest.

Item 12 Brokerage Practices (continued)

We are very conscious of this potential conflict of interest and have put in place the above mentioned policies and procedures to monitor broker selection and executions. We believe these policies and procedures allow us to achieve trade executions that maximize the value of our clients' portfolios.

- c. Commissions charged by soft-dollar brokers may be higher than those charged by other broker-dealers.

We are sensitive to this fact and continuously monitor our trading for our clients to ensure that overall we are providing the best possible executions and average commission cost.

- d. Specific products and services received through client commissions (soft-dollars) include:

- Indata (mixed-use; description above);
- Bloomberg;
- Telemet Quote System;
- AMEX Bid/Ask Quotes;
- NYSE Quotes;
- Capital IQ Research;
- Ned Davis Research;
- Berge Letter (research);
- Morgan Stanley Research;
- Russell Mellon Analytical Service;
- Thomson One Research;
- Edgar Online;
- FT Interactive Data (pricing);
- Omgeo (DTC confirmations);
- Factiva Research;
- Strategas Research; and
- Whitesand Research

Note, all research, products and services received through client commissions qualify for safe harbor in section 28(e) of the Securities Exchange Act of 1934.

- e. During the last fiscal year we utilized quarterly review meetings and daily monitoring by the trading desk to ensure that our soft dollar trades were executed fairly and in the best interests of our clients.

**2. Brokerage for Client Referrals**

Neither Donald Smith & Co., Inc. nor any of our related persons receives client referrals from a broker-dealer or third party.

**3. Directed Brokerage**

- a. Donald Smith & Co., Inc. does not recommend, request or require clients to direct transactions through a specified broker-dealer.
- b. We do permit clients to direct brokerage. If we are directed by a client, we can usually direct up to 20 percent in client-directed trades, provided we have a choice of at least 3 - 5 brokers with good trading capabilities.

Item 12 Brokerage Practices (continued)

Directing brokerage may cost clients more money. For example, in a directed brokerage account, a client may pay higher brokerage commissions because we are not able to aggregate orders to reduce transaction costs, or the directed broker might execute the transactions at less favorable prices than a non-directed broker would be able to obtain.

**B) Trade Aggregation**

We manage separate, individual portfolios, each containing various guidelines and restrictions regarding cash levels, market capitalization, foreign securities, maximum position, etc. To gain maximum efficiency in our trading, we have a centralized trading desk. A majority of our trade orders are allocated to single accounts. Additionally, orders in similar securities for clients with similar investment objectives and similar mandates are aggregated.

We are aware of the potential conflicts of interests among clients and have adopted policies to ensure fairness to all clients.

All trade allocation decisions are based on client guidelines and client restrictions (i.e. cash, foreign securities and market capitalization restrictions).

In allocating purchases between similar clients, one or more clients may go first if cash relative to a specific guideline is higher than other client portfolios or if exposure to a sector, industry, and/or the purchased security relative to a specific client guideline is less than other clients. In allocating sales, one or more clients may go first if cash relative to a specific guideline is lower than other client portfolios or if exposure to a sector, industry, and/or the purchased security relative to a specific guideline is greater than other clients. In cases of block trading, purchases and sales are spread proportionately among remaining appropriate clients, depending upon asset size.

To the best of our abilities, we try to allocate a potential trade to all appropriate accounts before trade execution. Portfolio management is a dynamic and time-sensitive exercise and as a result, there could be instances when allocations could be done post-trade.

Item 13 Review of Accounts / Client Reports

**A) Client Account Reviews**

We obtain monthly account statements for each client from their respective custodian and reconcile the holdings, cash and transactions to our records. We also sub-advise for three funds and conduct daily cash reconciliations in addition to our month-end account reviews.

Any discrepancies are worked out immediately with the client's custodian.

In addition to our reconciliations, client accounts are monitored constantly against their guidelines and restrictions to ensure each account is in compliance. These guidelines and restrictions are also embedded in our order management system, Indata. Compliance checks are done pre- and post-trade automatically in Indata.

Reconciliations are performed by our back office personnel and the constant monitoring of client guidelines is performed by our Head Trader.

**B) Factors That Trigger Non-Periodic Reviews**

If a client requests a review of any specific area of their account, we will do so in addition to our normal review processes described above.

**C) Content and Frequency of Reports to Clients**

We send monthly client letters to all clients along with a statement of their account performance and holdings. The client letters discuss a general topic such as our current views on the economy, or a particular sector or current happenings and their potential investment impact.

We also provide other periodic client reporting (e.g. commentaries, portfolio characteristics, etc.) by account if the client requests.

All of the above reports are written.

Item 14 Client Referrals and Other Compensation

**A) Economic Benefits from Third Parties (not applicable)**

Donald Smith & Co., Inc. does not receive any economic benefits from non clients for providing investment advice or other advisory services to our clients.

**B) Compensation of Non-Supervised Persons (not applicable)**

Neither Donald Smith & Co., Inc. nor any of our related persons directly or indirectly compensates any non-supervised person for client referrals.

Item 15 Custody

Donald Smith & Co., Inc. does not have custody of any client funds or securities. Each client chooses a custodian without our assistance or advice and this custodian maintains custody of the assets. Clients are free to change custodians whenever they choose.

We send out monthly account statements to each client with our monthly client letters. These are separate from and in addition to the statements clients will receive from their custodian.

We strongly urge all clients to compare the account statements they receive from us with the statements received by their qualified custodian.

Item 16 Investment Discretion

We only accept 100% discretionary accounts. We allow for each client to place guidelines and restrictions on their accounts, including restrictions on specific securities/sectors/industries, but we do not allow limitations on our discretionary authority.

Prior to assuming full discretionary authority over a client's account we sign a mutually agreed upon contract detailing the legal aspects of the relationship.

**A) Proxy Voting Policies and Procedures**

As our primary goal is to maximize the value of our clients' investment portfolios, we maintain a proxy voting policy that best serves the interest of our clients in their capacity as shareholders of a company. We believe this policy is in accordance with the SEC Guidelines that an investment adviser's primary responsibility as a fiduciary is to vote in the best interest of its clients.

We normally vote in support of company management on "routine" proposals, but vote against proposals that we believe would negatively impact the long-term value of our clients' share of a company. We vote against almost all proposals that would hinder the realization of maximum value for shareholders.

More specifically we vote for:

1. Confidential voting.
2. Shareholders must approve any poison pills or rights plan.
3. Shareholders' right to exercise an annual non-binding approval vote on executive compensation.
4. Annual election of Directors and against staggered Boards.
5. Cumulative voting.
6. Maintaining liability of Directors for gross negligence and malfeasance.
7. Vote against large dilution of shareholders, except company specific exceptions.
8. To review carefully all mergers. We will specifically focus on mergers that dilute tangible book value and vote against those managements that engage in such acquisitive activity.

The examples above are provided to give a general indication on how we vote our proxies on certain issues. These examples do not address all potential voting issues or the intricacies that may surround individual proxy votes. Therefore, actual proxy votes may differ from the guidelines presented.

We do not allow clients who have given us authority to vote proxies on their behalf to direct our votes in any solicitations, though any client may contact us to provide their opinions on the matter(s) to be voted on. We are always sensitive to conflicts of interest and always vote according to our clients' best interests.

Clients may obtain information on the proxies voted on their behalf at any time. A copy of our Proxy Voting Policy and Procedures is always available upon request as well.

**B) Non-Authority to Vote**

We are given the authority to vote proxies for the majority of our clients. Some clients choose to maintain that authority themselves or grant it to their custodian. In these

Item 17 Voting Client Securities (continued)

cases, the client will receive proxies and other solicitations directly from their custodian or a transfer agent.

These clients do have the option to contact us (via phone or email) with any questions regarding solicitations they receive.

Item 18 Financial Information

**A) Prepayment of Investment Management Fees (not applicable)**

Donald Smith & Co., Inc. does not require, solicit or accept prepayment of investment management fees from clients.

**B) Financial Condition**

We have discretionary authority over all of our clients' accounts. We do not know of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.

Again, we do not have custody of client assets and we do not require or accept prepayment of investment management fees.

**C) Bankruptcy Petition (not applicable)**

Donald Smith & Co., Inc. has not been the subject of a bankruptcy petition at any time during the past ten years, nor since its inception.

Item 19 Requirements for State Registered Advisors

**Not Applicable.**

Donald Smith & Co., Inc. is not registered or required to register with any state securities authorities.