



**FIRM BROCHURE**  
(Part 2A of Form ADV)

December 28, 2011

**Wall Street Associates, LLC**

1200 Prospect Street, Suite 100

La Jolla, CA 92037

Phone: (858) 551-2100

Fax: (858) 551-2120

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

Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Wall Street Associates, LLC. If you have any questions about the contents of this Brochure, please contact us at (858) 551-2100. 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.

Wall Street Associates, LLC is a registered investment adviser with the U.S. Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

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

## ITEM 2 MATERIAL CHANGES

This Brochure dated December 28, 2011 contains material changes since the last annual update of the Wall Street Associates, LLC (“WSA”) Firm Brochure dated March 25, 2011. Specifically, WSA has recently added a Large Cap Growth Strategy to its investment management services. In addition, WSA has added the Global Environmental Efficiency Portfolio (“GEEP”), and this Brochure contains material changes since the last version of the Brochure dated July 15, 2011. Please note that this summary of material changes discusses only those material changes that have occurred since the last annual update of the Brochure.

WSA encourages each client to read the Brochure carefully and to call us with any questions you may have. In particular, please note that the following Items contain additional information not found in prior versions of WSA’s Form ADV Part 2A:

**Item 4 – Advisory Business:** This Item contains new information pertaining to the Large Cap Growth and GEEP strategies, including the types of advisory services offered by WSA with respect to the Large Cap Growth and GEEP strategies.

**Item 5 – Fees and Compensation:** Material changes to this Item include the addition of a new fee schedule for the Large Cap Growth and GEEP strategies under Item 5.A.

**Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss:** Item 8.A contains information relating to WSA’s methods of analysis and stock selection for the Large Cap Growth and GEEP strategies. Item 8.B includes a description of the Large Cap Growth investment and GEEP strategies, including portfolio construction, sell discipline, and investment guidelines. Finally, Item 8.C includes important information about the risks involved in the Large Cap Growth and GEEP strategies, and how WSA manages those risks.

**Item 10 – Other Financial Industry Activities and Affiliations:** Item 10 contains additional information pertaining to certain relationships between WSA and affiliates of limited partners of WSA’s Hedge Funds, the potential conflicts of interests presented by such relationships, and how WSA addresses those conflicts.

WSA will ensure that each of its clients receive, within 120 days of the close of WSA’s fiscal year, either (i) a free updated Brochure that includes a summary of material changes or (ii) a summary of material changes that includes an offer to provide a copy of the updated Brochure and information on how to obtain the Brochure. WSA’s Brochure is available upon request by contacting Ted Smith, Chief Compliance Officer at (858) 551-6335 or [tsmith@wsalj.com](mailto:tsmith@wsalj.com).

For additional information about the firm, please visit our web site [www.wsalj.com](http://www.wsalj.com).

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## **ITEM 4     ADVISORY BUSINESS**

### **A. Description of Firm**

Wall Street Associates, LLC (“WSA” or the “Firm”) is an employee owned, SEC-registered investment adviser founded in 1987 on “Wall Street” in La Jolla, California. WSA provides investment management services focused on U.S. growth equity investments consisting of the following strategies, as described in more detail below: Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, Mid Cap Growth, Large Cap Growth, and the Global Environmental Efficiency Portfolio (GEEP). WSA manages growth portfolios primarily invested in domestic equity securities for institutional investors and private clients. As described more fully below, WSA provides fully discretionary and model equity investment advisory services for a variety of clients. In addition, WSA serves as sub-advisor for accounts that are co-managed by other non-affiliated investment advisers. WSA also serves as a sub-advisor to open-ended mutual funds sponsored by unrelated New York Stock Exchange member firms.

WSA is owned entirely by active employees. The managing member and principal owner of WSA is Wall Street Associates, Inc., a Subchapter-S corporation majority owned by the Firm’s founders (William Jeffery, III and Kenneth F. McCain) and minority shareholder Paul K. LeCoq. Prior to starting WSA, the Firm’s founding principals worked together for over ten years at another institutional investment management firm. Wall Street Associates, Inc. and WSA are not affiliated with any other organization. The Firm’s ownership and the rest of our professional staff are responsible for 100% of the management, operations, and investment functions of our business.

### **B. Types of Advisory Services Offered**

The majority of assets managed by WSA are invested in “long-only” strategies for separate accounts and investment funds (including registered investment companies or “mutual funds”). WSA also serves as investment manager for other investment funds and investment accounts, including two pooled investment hedge funds, organized as limited partnerships (“the Hedge Funds”).

WSA provides equity investment management advice to institutional clients and high net worth individuals. This includes separate account management of U.S. growth equity portfolios as well as Hedge Funds. Combining fundamental, bottom-up stock selection with disciplined risk management, we seek to maximize total return. At the outset of each client relationship, common long-term objectives are established, with an ongoing, proactive dialogue ensuring adherence to client objectives and the timely exchange of information.

WSA’s services include, but are not limited to, active portfolio management, issuance of quarterly reports on client investments, periodic written material on investments, the economy, and other issues deemed relevant for the client accounts and periodic personal visits as agreed between WSA and the client. For all transactions, WSA buys and sells securities through registered broker-dealers that are unaffiliated with WSA. WSA does not act as custodian and

does not maintain physical custody of client funds or securities. Please refer to Item 15 for additional information.

1. Services Provided in the Management of Client Accounts

WSA offers investment advice within its six key growth equity strategies: Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, Mid Cap Growth, Large Cap Growth, and the Global Environmental Efficiency Portfolio (GEEP). These key strategies are managed per the firm's unified investment philosophy and process.

For fully discretionary accounts, WSA manages portfolios subject to the following guidelines:

- Portfolios are generally fully invested. The maximum exposure to cash should generally not exceed 10% of the portfolio.
- All portfolio investments will be based on fundamental research and analysis.
- Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth investments will place particular emphasis on growth stocks with rapidly accelerating earnings, strong fundamentals and a reasonable probability for exceeding street consensus earnings estimates. Large Cap Growth investments will emphasize growth stocks with strong managements, increasing cash flows, sound business models, and catalysts that are likely to accelerate the growth of their businesses. GEEP investments will also emphasize growth stocks with strong managements, increasing cash flows, sound business models, and catalysts that are likely to accelerate the growth of their businesses. GEEP invests across the market capitalization spectrum in companies focusing on 1) energy efficiency and distribution, 2) transportation technology efficiency, and 3) carbon gas reduction.
- The market capitalization of Micro Cap Growth equity investments will generally be less than \$400 million (float adjusted) at the time of purchase. Issues with market caps below \$50 million (float) are typically not considered for purchase.
- The market capitalization of Institutional Small Growth equity investments will generally be less than \$1.5 billion (float adjusted) at the time of purchase including benchmark constituents above \$1.5 billion. Issues with market caps below \$50 million (float) are typically not considered for purchase.
- The market capitalization of Small-Mid Cap Growth equity investments will generally be less than \$10 billion (gross) at the time of purchase including benchmark constituents above \$10 billion.
- The market capitalization of Mid Cap Growth equity investments will be between \$1.5 and \$10 billion (gross) at the time of purchase including benchmark constituents above \$10 billion.
- The market capitalization of Large Cap Growth equity investments will be above \$3 billion (gross) at the time of purchase.
- The market capitalization of GEEP equity investments will be above \$50 million (gross) at the time of purchase.
- Issues will generally be traded on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ, and may include non-U.S. issues and securities in the form of American Depositary Receipts.

- With the exception of Large Cap Growth, an individual investment will not represent more than 3% of portfolio market value at the time of purchase. We typically initiate positions between 1% - 2% of portfolio market value.
- In Large Cap Growth, an individual investment will not represent more than 5% of portfolio market value at the time of purchase. We typically initiate positions between 3-4% of portfolio market value.
- Equity investments should generally not exceed more than 10% of any class of securities of any one issuer.
- Portfolios may not:
  - Engage in puts, calls, straddles, spreads, or any combination thereof
  - Borrow money, purchase securities on margin or sell securities short
  - Make loans or act as underwriter
- Investments in common, collective, or commingled trust funds must be approved by the Client in advance. We typically do not invest in these types of securities.
- Specifically, we seek companies exhibiting the following characteristics:
  - For our Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth investments:
    - Extraordinary earnings growth
    - Earning surprise potential
    - Fundamental strength
    - Management vision
  - For our Large Cap Growth and GEEP investments:
    - Strong financial statements/cash flows
    - Superior business models
    - Catalysts for change
    - Exceptional company management

## 2. Restrictions/Guidelines Imposed by Clients

Clients may impose reasonable guidelines and/or restrictions on investing in certain securities or types of securities. For example, a client may specify that the investment in any particular stock, industry, or sector should not exceed specified percentages of the portfolio's value. All such guidelines and restrictions must be communicated to WSA in writing.

## 3. Important Considerations

In accordance with Rule 204-3 under the Investment Advisers Act of 1940, as amended ("Advisers Act"), WSA will provide a brochure and one or more brochure supplements to each client or prospective client prior to or contemporaneously with the execution of an investment advisory agreement. Any client who has not received a copy of WSA's brochure at least forty-eight (48) hours prior to executing the Agreement shall have five (5) business days subsequent to executing the agreement to terminate WSA's services without penalty. Thereafter, the Agreement between WSA and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement.

Neither WSA nor the client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of WSA shall not be considered an assignment.

### C. Wrap Fee Programs

Although WSA does not sponsor, organize, or administer any wrap fee programs, WSA may participate in such programs by providing portfolio management services to wrap fee programs sponsored by others. Generally under a wrap fee program, a specified fee not based directly upon transactions in a client's account is charged for investment advisory services and the execution of client transactions. The fee, which generally covers portfolio management, brokerage, clearance, custody and administrative services, is typically payable to the program sponsor, who administers the program and selects other investment advisers to participate in the program.

Importantly, there is no difference in WSA's portfolio management services with respect to wrap fee accounts and the services provided to other accounts. WSA may receive a portion of the wrap fee from the program sponsor for the portfolio management services WSA provides to the program. Selection of a "wrap fee" program may result in the payment of fees by clients in excess of the combined total of separate advisory fees and brokerage commissions for the execution of client transactions. The sponsors of such programs will provide clients with a copy of the sponsor's Wrap Fee Program Brochure (Appendix 1 to Part 2A), setting forth important information about the applicable program.

### D. Amount of Client Assets Under Management

As of November 30, 2011, the amount of clients assets managed by WSA on a discretionary and non-discretionary basis was as follows:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$1,263,744,170
Non-Discretionary	\$0.00
<b>Total:</b>	<b>\$1,263,744,170</b>

## ITEM 5 FEES AND COMPENSATION

### A. Description of Fees; Fee Schedule

WSA charges fees based on a percentage of assets under management at varying rates depending on the particular types of advisory services to be provided. WSA may also charge performance-based fees as described in more detail in Item 6, below. The specific fees charged by WSA for its advisory services will be set forth in each client's written agreement with WSA. Although WSA believes its advisory fees are competitive, clients should be aware that lower fees for comparable services may be available from other sources. All fees are negotiable in WSA's sole discretion. For example, both standard and performance-based fees may differ, based on the situation and

circumstances prevailing at that time, as well as other factors such as aggregate assets across multiple strategies and associations or affiliations with the firm.

WSA offers investment advisory services with standard fees based on the following schedule. Please note that all fees set forth below do not include the customary fees and expenses associated with the purchase and sale of securities from registered broker-dealers or custodial-related fees. Please see "Other Fees and Expenses" below for additional information.

**Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth**

<u>Assets Under Management</u>	<u>Fee</u>
First \$25,000,000	1.00%
Greater than \$25 Million	.75%

**Mid Cap Growth**

<u>Assets Under Management</u>	<u>Fee</u>
First \$50,000,000	.80%
\$50,000,000 to \$100,000,000	.70%
Greater than \$100 Million	.60%

**Large Cap Growth**

<u>Assets Under Management</u>	<u>Fee</u>
First \$25,000,000	.75%
\$25,000,000 to \$50,000,000	.65%
\$50,000,000 to \$100,000,000	.55%
\$100,000,000 to 250,000,000	.50%
Greater than \$250 Million	.45%

**Global Environmental Efficiency Portfolio (GEEP)**

<u>Assets Under Management</u>	<u>Fee</u>
First \$25,000,000	.90%
\$25,000,000 to \$50,000,000	.80%
\$50,000,000 to \$100,000,000	.70%
\$100,000,000 to 250,000,000	.60%
Greater than \$250 Million	.45%

Fees are generally charged in arrears and are typically billed directly to the Client for separate payment on a quarterly basis. Clients have the option to pay fees separately or to instruct their custodians to pay the fees from their account directly to WSA. It is customary for management fees to be prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Fee charges and proration methodologies may differ from Client to Client. Each Client's investment advisory contract generally determines how fees are calculated, paid and prorated.

**Sub-Advisory Services**

*Standard fee:* 0.50% of assets under management per annum

Sub-advisory fees generally are computed on a monthly basis and billed in arrears or otherwise pursuant to the investment advisory agreements, registration statements and prospectuses of such mutual funds.

**Model Investment Advisory Services**

*Standard fee range:* 0.35% to 0.50% of Model assets per annum.

**WSA's Hedge Funds**

*Fee:* 1.00% of assets per annum paid quarterly in arrears based on the value of each Limited Partner's Capital Account balance as of the end of each relevant calendar quarter.

*Incentive Allocation:* 20% of the Net Profit (including both realized and unrealized gains and losses and unrealized appreciation) allocated to each Limited Partner. Please see Item 6, below for additional information relating to WSA's receipt of performance-based fees.

**B. Other Fees and Expenses**

Clients should understand that the advisory fees described in the sections above do not include brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by third parties such as custodial fees, mutual fund fees and expenses, wrap fees charged by third party program sponsors, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Additionally, clients may incur brokerage commissions and other execution costs charged by the custodian or executing broker-dealer in connection with transactions for a client's account. Neither WSA nor any of its advisory personnel receive compensation for the sale of securities or other investment products purchased for a client's account.

Client assets invested in mutual funds will be subject to certain fees and expenses imposed directly by mutual funds to their shareholders, which shall be described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the sponsor also imposes sales charges, a client may be required to pay an initial or deferred sales or surrender charge.

The charges, fees and commissions incurred in connection with transactions for a client's account are exclusive of and in addition to the fees charged by WSA are generally paid out of the assets in the account. WSA shall not receive any portion of these commissions, fees, and costs. Clients should review the fees charged by any third party together with the fees charged by WSA, to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided. Please refer to Item 12 of this Brochure for additional important information about the brokerage and transactional practices of WSA, including the

factors that WSA considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation.

## **ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

WSA offers a fee alternative in the form of specifically negotiated performance fee arrangements (i.e. fees calculated based on a share of capital gains or on capital appreciation of the funds or any portion of the funds of an advisory client). Performance-based fees for “long only” accounts typically provide for a fixed base fee below the level of the standard fixed fee, plus a negotiated performance factor (percentage of profits) that may exceed the fixed fee rate described above.

Performance fees are subject to negotiation with individual clients and will be structured in accordance with Rule 205-3 of the Investment Adviser’s Act of 1940, as amended. In measuring clients’ assets for the calculation of performance-based fees (including the Incentive Allocation for WSA’s Hedge Funds), WSA shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for WSA to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

As noted above, WSA charges an incentive allocation for each of the Hedge Funds equal to 20% of the Net Profit (including both realized and unrealized gains and losses and unrealized appreciation) allocated to each Limited Partner. The incentive allocation is generally calculated and made (if applicable) as of each December 31. The incentive allocation will also be calculated and made (if applicable) during instances when a Limited Partner is permitted or required, in the General Partner’s discretion, to fully withdraw from the investment fund on a date other than those specified, but only as to the Limited Partner making the withdrawal. Incentive allocations are subject to a high water mark procedure under which the General Partner is eligible to receive an incentive allocation from a Limited Partner only to the extent the net profit allocated to a Limited Partner exceeds net loss allocated to him/her (adjusted for withdrawals). Each General Partner reserves the right to assess up to 20% of the annual net profits earned by each Limited Partner, so long as each Limited Partner’s investment is above the prior year’s high water mark. The calculation of the incentive allocation, including the high water mark, is implemented in the Partnership Agreement for each Hedge Fund through an “IA Calculation Account” or a “Carryforward and Calculation Account” for each Limited Partner that keeps track of any unrecovered Net Loss allocated to that Limited Partner over the duration of his or her investment in the investment fund. If a Limited Partner were to make a partial withdrawal at a time when he/she has an unrecovered Net Loss, for the purposes of calculating the incentive allocation, the unrecovered Net Loss would be reduced in proportion to the withdrawal.

Such performance-based fee/incentive allocation structures may create an incentive for the Investment Advisers and General Partners of the Hedge Funds to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee/incentive allocation structure. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

Additionally, the performance-based fee structure could also cause the portfolio managers responsible for the Hedge Funds to devote a disproportionate amount of time to the management of the Hedge Funds, and compensation may be larger than it otherwise would have been because the fee/incentive allocation will be based on account performance instead of a percentage of assets under management. Performance-based fee structures could create an incentive for the Hedge Funds' General Partner or Investment Manager to over-value certain assets held by the respective Hedge Fund. WSA has adopted valuation policies designed to promote fair, accurate and current valuations of securities and portfolios. WSA utilizes, to the fullest extent possible, recognized and independent pricing services (e.g., Interactive Data Corporation - "IDC" - as the primary pricing service and Thomson Reuters pricing data as the secondary pricing service) and/or qualified custodians for timely valuation information for advisory client securities and portfolios.

The Hedge Funds have substantially different investment objectives to those of the "long only" accounts. Some of those accounts and funds may be subject to limitations as to the type of transactions they enter into or investment strategies they may employ. WSA may cause long-only client accounts and the Hedge Funds to buy or sell the same securities at the same time. In doing so, WSA may cause some or all of the Hedge Funds' purchases or sales to be aggregated with those of the long-only client accounts. This may cause the Hedge Funds to forego opportunities or transactions that it might otherwise be able to enter into. For example, the Hedge Funds are not allowed to sell short any issue held in "long-only" accounts. Also, Hedge Funds are not allowed to participate in IPOs or Secondary Offerings. In addition, the same or other exercises of WSA's discretion in allocating trading opportunities among the long-only client accounts and the Hedge Funds may not be as advantageous to the Hedge Funds as might be the case if WSA did not manage long-only client accounts.

WSA has procedures designed and implemented to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among clients. WSA's side-by-side management of long-only client accounts and the Hedge Funds is governed by the firm's internal policies and procedures. WSA's investment personnel considering transactions for a hedge fund must obtain approval/acknowledgements of the transaction by a Senior Member of the Firm's Portfolio Management Staff, the Trading Desk, and the Chief Compliance Officer. Hedge Fund Pre-clearance forms must be initiated in writing prior to the contemplated securities transaction and must state, among other things, whether or not the security is currently held in any other WSA client accounts or is being considered for purchase or sale in any other client account ("long-only" and/or hedge fund). Transactions are generally approved when the Senior Member of the Portfolio Management Staff, the Trading Desk and the Chief Compliance Officer (each having no personal interest in the subject transaction) review and conclude that the transaction is consistent with the policies described in the firm's Statement of Policy and Procedures Regarding Hedge Fund Securities Transactions and that the conditions necessary for approval of the transaction have been satisfied.

WSA's disclosure of the Hedge Funds above and elsewhere in this Brochure are not intended to be solicitations for or advertisements of the Hedge Funds. Instead, such disclosures have been made to provide all WSA clients with important information about the risks implicit of these

types of activities as they relate to both investors in the Hedge Funds and WSA clients in general.

## **ITEM 7 TYPES OF CLIENTS**

### **A. Description**

WSA provides fully discretionary and Model equity investment advisory services for a variety of clients, including:

- (1) Public and Private Institutional Clients, including government entities, pension plans, corporations, charitable organizations (foundations, endowments, etc.), trusts and estates;
- (2) A Hedge Fund relying on the exemption from the definition of “investment company” provided in Section 3(c)(1) of the Investment Company Act of 1940, organized as a Limited Partnership for which WSA’s Managing Member serves as General Partner (“3(c)(1) Hedge Fund”);
- (3) A Hedge Fund relying on the exemption from the definition of “investment company” provided in Section 3(c)(7) of the Investment Company Act of 1940, organized as a Limited Partnership for which WSA serves as General Partner (“3(c)(7) Hedge Fund”); and
- (4) High Net Worth Individuals.

In addition, WSA serves as sub-advisor for accounts that are co-managed by other non-affiliated investment advisers. WSA also serves as a sub-advisor to open-ended mutual funds sponsored by unrelated New York Stock Exchange member firms.

### **B. Conditions for Managing Accounts**

Prior to engaging WSA to provide investment advisory services, the client will be required to enter into one or more written agreements with WSA setting forth the terms and conditions under which WSA shall render its services. Client portfolios are managed in accordance with our product mandates and portfolio guidelines, as well as any client-imposed restrictions. The minimum investment for institutional separate accounts and Model accounts is \$3,000,000, subject to such exception as management in its sole discretion shall determine. The minimum investment for taxable individuals establishing a separate account is \$3,000,000, also subject to such exception as the management in its sole discretion shall determine.

The minimum initial investment in WSA’s 3(c)(1) Hedge Fund is \$500,000, subject to such exceptions as the General Partner in its sole discretion determines. The minimum initial investment in WSA’s 3(c)(7) Hedge Fund is \$1,000,000, subject to such exceptions as the General Partner in its sole discretion determines. Although WSA does not advise clients to invest in its Hedge Fund offerings, it may market its 3(c)(7) Hedge Fund to existing clients. However, this will only occur if WSA considers this Hedge Fund to be appropriate for the client and/or when asked to do so by the client. Clients that invest in WSA’s Hedge Funds would not be charged an advisory fee in addition to the management fee and incentive allocation. Certain

other statutory restrictions apply to investments in the 3(c)(7) Hedge Fund, including the requirements that the Hedge Fund's outstanding securities must be owned exclusively by "qualified purchasers" and must not be offered publicly.

Because WSA's Hedge Funds have substantially different investment strategies than those employed for "long only" clients, the Hedge Funds generally invest their assets in different types of investments, some of which may be inherently riskier. Full disclosure of the investment strategies, the types of investments, and the risks are located within each Hedge Fund's offering documents (e.g., Limited Partnership Agreement, Offering Memorandum and Subscription Document). Additional information on the risks involved in particular investments recommended by WSA is set forth under Item 8.

### **C. Anti-Money Laundering & Anti-Terrorism Policies**

Through its on-going assessment of internal controls, WSA has identified particular areas to safeguard against potential Anti-Money Laundering ("AML") abuses. Our products most vulnerable to money laundering activities include Hedge Funds and Sub-Advised Mutual Funds.

#### Hedge Funds

Prospective Limited Partners are required to fill-out a background questionnaire and provide evidence of their identity. WSA's Chief Compliance Officer reviews this information, as does the Fund's administrator, and checks it against the OFAC lists. In addition, WSA's Chief Compliance Officer reviews background questionnaires for prospective hedge fund investors.

#### Sub-Advised Mutual Funds

Our sub-advised mutual funds follow their own AML policies and procedures.

#### Institutional and Other Separate Account Clients

Unknown individuals are required to provide information on their identity, which is reviewed by WSA Operations and senior management. Most separate account clients are publicly known entities and thereby pose minimal risk for money laundering.

### **Monitoring Potential Suspicious or Unusual Transactions**

WSA continuously monitors for potentially suspicious activities. In accordance with the USA Patriot Act, WSA will investigate any unusual client activities or transactions. Examples of a suspicious activity may include:

- A client's reluctance to provide certain information or records (such as a driver's license)
- Frequent transfers, deposits or withdrawals (especially to offshore entities)
- Frequent deposits under \$10,000 to avoid Cash Transaction Reporting requirements

Employees are trained to notify the CCO if they observe any suspicious or unusual transactions. Our Prime Broker/Fund Administrator also monitors for suspicious activity and notifies WSA of any potential concerns. Suspicious Activity Reporting ("SAR") will be conducted in the case where a suspicious activity or trend occurs.

### **Identification and Verification of Clients and Potential Clients**

WSA does not open accounts on behalf of any person or entity whose name is on the Office of Foreign Asset Control ("OFAC") List, which is provided by the US Treasury Department. Links to the OFAC List are e-mailed to the Chief Compliance Officer as the list is updated. The CCO reviews the list and sends it to WSA employees as required.

When applicable, WSA might also review the Financial Action Task Force's list to ensure that new clients reside in a country that harbors known money launderers.

To conduct these searches, before opening an account, the client must provide evidence of his or her name, address, date of birth, social security number and/or tax ID number. Legal entities must provide evidence that the acting principal is authorized to open the account.

In the event that WSA has a potential hit, the firm will issue a SAR report to the FBI and applicable financial regulators, such as the SEC. WSA will take any necessary action to help freeze open accounts for any persons or entities that are on the money laundering or terrorist list and report the information to the relevant authorities.

## **ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis**

WSA utilizes various methods of analysis in formulating its investment management decisions. WSA's investment process is driven foremost by fundamental, bottom-up stock selection, with portfolio risk managed through our portfolio construction process. WSA employs a defined process for each step in the investment management cycle. This includes selection, implementation and ongoing monitoring.

WSA's investment philosophy is founded upon fundamental, "bottom-up" stock selection. We focus on the strategic and financial aspects of our investments. Solid management and strong earnings prospects are vital to us. Specifically, for our Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth investments, we seek companies exhibiting the following characteristics:

- Extraordinary Earnings Growth
- Earnings Surprise Potential
- Fundamental Strength
- Management Vision

For our Large Cap Growth and GEEP investments, we seek companies exhibiting the following characteristics:

- Strong Financial Statements/Cash Flows

- Superior Business Models
- Catalyst For Change
- Exceptional Company Management

In our fully invested portfolios, existing holdings must continuously earn their place in the portfolio or be replaced by a better investment candidate. Each portfolio manager has sole responsibility over purchase and sell decisions within their area of sector specialization. While individual company research is the basis of security selection, the investment team works within the boundaries of our product mandates and portfolio guidelines, as well as any client-imposed restrictions. Individual holdings are monitored on a daily basis, with detailed portfolio construction reviews occurring weekly.

Our investment team applies this investment philosophy across our Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth and Mid Cap Growth strategies. We believe this collective philosophy, applied to all portfolios, creates synergy and effectiveness within the portfolio management effort.

The Large Cap Growth and GEEP strategies leverage research conducted by our investment team managing our Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth portfolios. The members of this team specialize in certain sectors and industries across each of our lesser-cap product offerings. This model provides the team a continuously unfolding research perspective in which coverage begins with initial discovery and continues uninterrupted throughout a company's life cycle. Through this structure, thriving holdings migrate naturally from our micro to small to mid-cap offerings. The Large Cap Growth and GEEP strategies benefit not only from the rich perspective provided on potential investments but also from insights on the customers, suppliers, and competitors of current and potential Large Cap Growth and GEEP holdings.

### **Stock Selection**

Stock selection is derived from an evaluation process whereby candidates must pass the firm's stringent investment criteria.

#### **Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth and Mid Cap Growth:**

*Idea Generation* – Initial investment ideas are derived from the following resources:

- External data resources (company/industry statistics)
- A broad, external network of national and regional analysts and brokers specializing in micro, small, and mid-cap growth companies
- Investment staff meetings with company management teams (approx. 500 per year)
- Industry conferences and company conference calls (approx. 500 per year)

Investment team members, specializing in certain sectors/industries, utilize these resources to gather company and industry information on a universe of approximately 1,000 to 3,000 stocks (based on the strategy capitalization range). Then through the application of basic investment

criteria (including >20% long-term growth rate), we trim the full universe of stocks down to approximately 300 to 1,000 investment prospects (based on strategy).

*Focused Research* – Investment prospects culled from our initial screening process are subjected to industry specific analysis by our sector specialists to further narrow the field of prospective investments. For example, Technology companies are reviewed for factors such as increasing market share and expanding operating margins while medical device companies are reviewed for aspects such as distribution strategy and patent protection. This process trims the universe of prospects to approximately 150 to 300 issues (based on strategy).

Next, investment team members delve deeper into each remaining prospects' outlook for growth, as well as its current financial position, to determine a risk/reward profile detailing internal fundamentals, competitive positioning relative to industry peers, and the probability for earnings surprise. This sweeping analysis includes industry trends, financial statement analysis, comparative analyses (sector, industry, and peer), management assessments, identification of catalysts, and valuations. The insights gained through our management contacts and other research are used to evaluate street revenue/earnings models. We stress test financial models from the best "street" analysts (assessed via long-term, absolute and peer-relative analysis) by challenging their assumptions and the quality of their data to arrive at our own revenue/earnings estimates and valuation judgments. This analysis forms the foundation of our investment opinion as we take advantage of voids in coverage and inaccurate market assumptions.

Major factors analyzed to determine purchase candidates include:

*Extraordinary Earnings Growth*

Companies demonstrating extraordinary earnings growth are essential to our investment philosophy. We apply forward-looking research to analyze the sources and quality of growth, the dependability of the revenue stream, the operational efficiency, and the expectations for growth.

*Earnings Surprise Potential*

The limited amount and overall quality of research coverage in the U.S. smaller capitalization range often creates inaccurate expectations for consensus growth. WSA utilizes time-forged, internal research methods -- perfected within this capitalization niche -- to exploit these inaccuracies and voids in coverage. We capitalize on opportunities where catalysts for growth can be identified but where market assumptions are either inaccurate or coverage is lacking or both. The majority of our efforts are spent in analysis meant to capitalize on industry-leading growth, which, in our view, is paramount to achieving superior returns in growth investing.

*Fundamental Strength*

As a bottom-up, fundamental investment manager, we seek to invest in companies whose growth prospects are matched by the strength of their balance sheet and income statement. Rigorous company financial analysis is combined with competitive analyses to ensure that investment opportunities meet our standards on an absolute and peer-

relative basis. The overall, as well as sector-specific, experience of our investment team is crucial in this area.

Management Vision

We define Management Vision as the combination of strategy and execution. We seek companies led by credible management teams that are capable not only of developing competitive business strategies but also of implementing those strategies in a method that builds shareholder wealth. Our management assessments have been refined and developed through years of devotion to our investment niche. In a given year, we meet with hundreds of today's top management teams, providing us with an insightful, competitive framework with which to conduct our evaluations. The benefit of our experience, through years of dedication to our investment style, is the key to this analysis.

*Confirmation / Stock Selection* - As a final step in our research process, investment team members seek second and third opinions, both from their relationships with other company management teams in the marketplace, and also from their relationships with external analysts. Finding both bullish and bearish perspectives is critical to the final assessment of our research results.

Large Cap Growth:

WSA's Large Cap Growth strategy seeks to maximize long-term capital appreciation by investing primarily in U.S. companies with market capitalizations of above \$3 billion at the time of purchase.

*Idea Generation* – Initial investment ideas are derived from the following resources:

- External database resources (Screening company/industry statistics)
- Securities Industry Contacts
- Industry conferences, Trade Shows, and company conference calls   co meetings
- Trade and general Media
- Wall Street research (limited basis)
- Lesser-Cap Holdings

We start with a universe of approximately 800 large-cap growth stocks. After screening for market capitalization above of \$3 billion and long-term growth in excess of 15%, the universe is reduced to approximately 400. The identification of companies with strong management teams, sound business models, and increasing cash flows further reduces the universe to 100 strong prospects. These companies will remain on our prospect list regardless of whether they currently have a positive catalyst. The list is finally reduced to the 25-35 portfolio holdings that display the strongest catalysts that can accelerate the growth of their businesses.

GEEP:

WSA's GEEP strategy seeks to maximize long-term capital appreciation by investing primarily in U.S. companies with market capitalizations of above \$50 million at the time of purchase. This strategy invests in companies focusing on 1) energy efficiency and distribution, 2) transportation technology efficiency, and 3) carbon gas reduction.

*Idea Generation* – Initial investment ideas are derived from the following resources:

- External database resources (Screening company/industry statistics)
- Securities Industry Contacts
- Industry conferences, Trade Shows, and company conference calls   co meetings
- Trade and general Media
- Wall Street research (limited basis)

We start with a universe of 6,000 stocks. After screening for market capitalization above of \$50 million and long-term growth in excess of 15%, as well as companies having a positive impact on the environment, the universe is reduced to approximately 100. The identification of companies with strong management teams, sound business models, and increasing cash flows further reduces the universe to strong prospects. The list is finally reduced to the 30-50 portfolio holdings that reflect these characteristics.

Major factors analyzed to determine purchase candidates in both the Large Cap Growth and GEEP strategies include:

*Strong Financial Statement/Cash Flows*

Our financial statement analysis is geared to discover companies that provide rising free cash flow, and increasing return on invested capital. These are companies that typically display strong balance sheets, predictable revenues/earnings, and higher returns on equity and assets. Cash flows must be sufficient to weather economic downturns. Companies with strong cash flows not only can survive economic downturns but can continue to invest in growth and gain market share. Our valuation analysis is driven by discounted cash flow models (DCF's) built from proprietary in-house cash flow estimates. Cash flow estimates are derived from an in-depth analysis of company revenues, expenses, and additional factors such as working capital (accounts payable/receivable, inventory) capital expenditures, depreciation, and acquisitions to arrive at a "free" cash flow estimate.

*Superior Business Model*

Companies in which we invest must provide a distinct and sustainable (5-10 years) competitive advantage and a business model strong enough to survive an increased competition. We look for companies with a history of organic growth, existing barriers to entry, capital efficiency (favorable equipment/acquisition requirements), and the ability to expand margins and increase return on invested capital as the firm grows.

Catalyst For Change

We search for a catalyst that will accelerate a business and lead to extraordinary growth in revenues, earnings, and free cash flow. These catalysts can be company-specific (new management or products), industry-specific (regulatory or consumer preference changes), or related to the economy (changing demographics, rising savings rate). These and other catalysts we seek are long-term drivers of growth as opposed to short-term events that enable a company to beat earnings estimates for one quarter. These catalysts can last 2 – 10 years.

Exceptional Company Management

Company management must be able to execute effectively and share our vision for the future of the company and industry. This vision should reflect our investment criteria to strengthen cash flows, recognize catalysts for change, and produce a superior business model that will allow the company to take advantage of that change. We will not invest in a firm that does not share our vision. As long-term investors, we want to own companies where the management teams' strategic decision-making aligns with our view. Our evaluation of management includes an analysis of their strengths/weaknesses, company product line, distribution capabilities, and product pricing, as well as the firm's culture, incentive plans and vision. We seek experienced, prudent, and successful teams that act with their shareholders best interest in mind and look to speak with many different levels of management.

Independent resources are utilized to cross-reference and confirm our research findings. Customer, suppliers, and competitors of investment candidates provide a different view from which to measure the positive and negative aspects of an investment idea.

**B. Investment Strategies**

The investment strategies WSA may pursue on behalf of clients may include long- and short-term purchases, trading, short sales, trading on margin, and option writing including covered options, uncovered options or spreading strategies.

As mentioned above, WSA's Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies are managed per a unified philosophy and process and are differentiated solely by market capitalization constraints.

Portfolio Construction

WSA's portfolio construction process includes:

*Investment Strategy Group (ISG)* – Formally bringing together the firm's investment, risk management, and client service/marketing professionals generally each month, ISG members analyze portfolio attribution, assess overall risk (intended and unintended), evaluate the market environment, and manage sector, industry, and security exposure within client portfolios. Key inputs in the formulation of our strategy first include our internal, bottom-up research, followed by views from "the street's" top strategists and economists, and then include a review of the

statistical measures from our risk management area. This multi-faceted approach has proven successful in keeping portfolios focused on the fastest growing sectors of the economy.

The ISG also fosters the on-going development of our investment process. Quantitative inputs from our risk management area serve as tools for the evaluation of prior investment decisions. Reflection on our investment successes and setbacks is a vital tool, both in the ongoing development of our process and in the constant movement toward keeping us at the forefront of our investment style.

The practice of WSA's ISG has been and will continue to be a differentiating characteristic of our investment process. With this team approach, fundamental analysis of risk, and dedication to the evolution of our process, we believe the ISG will continue to produce benefits for our portfolios.

### Sell Discipline

Our sell discipline is clearly defined and consistently applied. Portfolios remain fully invested at all times with each stock continually having to earn its place in the portfolio. Low performing stocks are examined weekly to challenge the rationale for continuing to hold them. Stocks are sold from the portfolio when they fail to meet our investment criteria or when a stock with a higher return potential is found.

For WSA's Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth and Mid Cap Growth strategies, a strict, one-in/one-out discipline of holdings necessitates constant valuation judgments by the portfolio managers.

The following circumstances may initiate a sale of part or all of a position:

- A better opportunity for purchase
- Position size exceeds 3% of total portfolio
- Portfolio sector weighting exceeds the actively monitored sector guideline
- Potential for earnings disappointment
- Deterioration of fundamentals at the company and/or industry level
- Valuation (industry and peer-relative)

For WSA's Large Cap Growth and GEEP strategies, our prospect lists (each comprised of approximately 100 stocks) are continuously compared to existing holdings. Strong existing holding will be replaced by stronger prospects even if the existing holding remains compelling. In addition, negative changes precipitated by company mistakes or outside forces rapidly lead to sell decisions. The following circumstances may initiate a sale of part or all of a position:

- Deterioration of fundamentals at the company and/or industry level
- Negative change in management
- Deterioration of cash flows due to business becoming more capital intensive
- Weakening competitive position due to falling barriers to entry
- End to positive catalysts

- A better opportunity for purchase
- Position size exceeds target total portfolio maximum (Large Cap Growth 8%, GEEP 6%)
- Portfolio sector weighting exceeds the actively monitored sector guideline
- Seeking diversification through sector, catalysts, or geographic region
- Valuation (as measured by discounted cash flows)

In addition, positions may be trimmed as a company begins to experience large outflows of capital due to events such as new product research and development. A company's growth acceleration can temporarily slow as significant capital and resources are poured into a new venture (investment period). During these times, we may wish to reduce our position size while retaining a stake in anticipation of the point where outlays begin to diminish and the new venture starts to produce revenue and turn a profit.

#### Investment Strategy Guidelines

WSA's Micro Cap Growth strategy invests primarily in domestic growth equities with a market capitalization of less than \$400 million (float adjusted) at purchase. Issues with market caps below \$50 million (float) are typically not considered for purchase. It is measured against the Russell 2000 Growth Index for comparison purposes. Portfolios hold approximately 100 issues.

WSA's Institutional Small Growth strategy invests primarily in domestic growth equities with a market capitalization of less than \$1.5 billion (float adjusted) at purchase, including benchmark constituents above \$1.5 billion. Issues with market caps below \$50 million (float) are typically not considered for purchase. It is measured against the Russell 2000 Growth Index for comparison purposes. Portfolios hold approximately 90 issues.

WSA's Small-Mid Cap Growth strategy invests primarily in domestic growth equities with a market capitalization of less than \$10 billion (gross) at purchase, including benchmark constituents above \$10 billion. It is measured against a 50/50 blend of the Russell 2000 Growth Index and the Russell Midcap Growth Index for comparison purposes. Portfolios hold approximately 80 issues.

WSA's Mid Cap Growth strategy invests primarily in domestic growth equities with a market capitalization from \$1.5 billion to \$10 billion (gross) at purchase, including benchmark constituents above \$10 billion. It is measured against the Russell Midcap Growth Index for comparison purposes. Portfolios hold approximately 75 issues.

WSA's Large Cap Growth strategy invests primarily in domestic growth equities with a market capitalization of above \$3 billion (gross) at purchase. It is measured against the Russell 1000 Growth Index for comparison purposes. Portfolios hold approximately 30 issues.

WSA's GEEP strategy invests primarily in domestic growth equities with a market capitalization of above \$50 million (gross) at purchase. This strategy invests in companies focusing on 1) energy efficiency and distribution, 2) transportation technology efficiency, and 3) carbon gas

reduction. It is measured against the Russell 3000 Growth Index and the NASDAQ Clean Edge Green Energy Index for comparison purposes. Portfolios hold approximately 30-50 issues.

### General Portfolio Guidelines

The following guidelines are applicable to the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies:

- Fully invested (typically less than 5% in cash).
- Maximum 3% portfolio weighting for individual holdings at purchase.
- Actively monitored sector/industry weighting guidelines.
- Additional client established guidelines may be imposed

The following guidelines are applicable to the Large Cap Growth strategy:

- Fully invested (typically less than 5% in cash).
- Maximum 5% portfolio weighting for individual holdings at purchase (8% thereafter).
- Actively monitored sector/industry weighting guidelines.
- Additional client established guidelines may be imposed

The following guidelines are applicable to the GEEP strategy:

- Fully invested (typically less than 5% in cash).
- Maximum 3% portfolio weighting for individual holdings at purchase (6% thereafter).
- Actively monitored sector/industry weighting guidelines.
- Additional client established guidelines may be imposed

## **C. Risk of Loss**

### Generally

Investing in securities involves a significant risk of loss. WSA's investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made. Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk and consequently, the value of the client's account may at anytime be worth more or less than the amount invested.

### Risks Involved in Particular Types of Investments

*Stock Market Risk.* The market value of stocks will generally fluctuate with market conditions. While stocks have historically outperformed other asset classes over the long term, they tend to fluctuate over the short term as a result of factors affecting the individual companies, industries or the securities market as a whole. Past performance of investments is no guarantee of future results.

*Foreign Investing Risk.* Investments in overseas markets also pose special risks, including currency fluctuation and political risks, and may be more volatile than that of a U.S. only investment. Such risks are generally intensified for investments in emerging markets.

*Small and Mid-Cap Company Risk.* Stocks of mid-capitalization companies often have greater price volatility, lower trading volume, and less liquidity than the stocks of larger, more established companies. Stocks of small-capitalization companies often experience greater price volatility than large- or mid-sized companies because small-cap companies are often newer or less established than larger companies and are likely to have more limited resources, products and markets. Securities of small-cap companies are often less liquid than securities of larger companies as a result of there being a smaller market for their securities.

*Large-Cap Company Risk.* Large-cap companies may be unable to respond quickly to new competitive challenges such as changes in technology, and also may not be able to attain the high growth rate of successful smaller companies, especially during extended periods of economic expansion.

*Growth Investing Risk.* Prices of growth company securities may fall more than the overall equity markets due to changing economic, political or market conditions or disappointing growth company earnings results. Growth stocks also generally lack the dividends of some value stocks that can cushion stock prices in a falling market.

*Renewable and Alternative Energy Risk.* Renewable and alternative energy companies are subject to certain risks, including energy conservation, taxes, price controls, and other regulatory policies of various governments. Clean energy companies may be highly dependent upon government subsidies, contracts with government entities, and the successful development of new and proprietary technologies. In addition, seasonal weather conditions, fluctuations in supply of and demand for clean energy products, and international political events may cause fluctuations in the performance of clean energy companies and the prices of their securities. The alternative energy industry can be significantly affected by obsolescence of existing technology, short product lifecycles, falling prices and profits, competition from new market entrants and general economic conditions. Companies in this industry could be adversely affected by commodity price volatility, imposition of import controls, increased competition, depletion of resources, technological developments and labor relations. Shares of clean energy companies have been significantly more volatile than companies operating in more established industries.

*Risks Related to WSA's Hedge Funds.*

WSA employs a different investment process/strategy for the Hedge Funds (as compared to the "long-only" fully discretionary accounts) which may be considered riskier. The processes and strategies for the Hedge Funds are disclosed in each Hedge Fund's offering documents (e.g., Limited Partnership Agreement, Offering Memorandum and Subscription Document) and may include leverage, short sales, and uncovered options. Such strategies carry a risk of unlimited losses. Leverage increases both the possibilities for profit and the risk of loss. Hedging strategies in general are usually intended to limit or reduce investment risk, but they can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit.

Additionally, the structure of such investments may present special risks, including without limitation, limited liquidity, higher fees, volatile performance, heightened risk of loss, limited transparency, special tax considerations, subjective valuations and limited regulatory oversight. The performance-based fee/incentive allocation structure of the Hedge Funds may create an incentive to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee/incentive allocation structure.

As General Partner, WSA and its Managing Member have unlimited liability for debts incurred to third parties as a result of any infinite losses. Additionally, Hedge Funds will likely experience higher turnover than the fully discretionary accounts. This higher turnover and the performance-based fee structure of the Hedge Funds could cause the portfolio managers to devote a disproportionate amount of effort and time to the management of the Hedge Funds, thereby creating a potential conflict of interest.

### Risk Management

WSA takes a disciplined and multi-dimensional approach toward investment risk management. General risk controls applied toward portfolio construction include the following: monitoring of information ratio, upside/downside capture, portfolio tracking error, beta and marginal contribution to active risk vs. applicable benchmark; monitoring of capitalization, sector and industry weights, and cash; monitoring of portfolio holdings (which for Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, Mid Cap Growth, and GEEP are limited to a maximum 3% portfolio weighting at purchase and GEEP holdings typically do not exceed 6% at market value. For Large Cap Growth, holdings are generally weighted 2-5% (avg. 3.5%) at purchase and typically do not exceed 8% at market value); and maintenance of client investment policy guidelines and limitations. In addition, portfolios are diversified by catalysts and geographic region. Diversification is also achieved within an industry. For example, Healthcare holdings would be diversified by funding sources while Energy stocks would be diversified by off-shore versus on-shore exposure.

WSA's risk management function also conducts in-depth analysis of portfolio risk to help maximize return within each client's account guidelines. BARRA's Aegis Small Cap Model™ and Vestek's trade-based portfolio attribution system enhance our risk management process. A broad understanding of the sources of our risk has become a crucial element in the portfolio construction process.

Portfolios are reviewed for strategy and guideline compliance on an ongoing basis. Investment team members hold a brief meeting each morning to highlight economic, industry, and company news that could affect portfolio holdings. On a weekly basis, comprehensive portfolio reports (including exceptions, if any) and portfolio attribution are produced by our risk management area and distributed throughout the firm. The portfolio reports analyze portfolio construction and focus on ensuring product and client guideline compliance. As well, the investment team gathers weekly for the "20% Down" meeting to challenge low performing stocks and examine the rationale for continuing to hold them. Portfolio construction, as related to product and client guidelines, is also reviewed by WSA's Investment Strategy Group (ISG) at regularly scheduled

meetings. Ted Smith, Co-chair of the Investment Strategy Group and the firm's Chief Operating Officer/Chief Compliance Officer, actively oversees this entire risk management process.

## **ITEM 9 DISCIPLINARY INFORMATION**

Registered investment advisers such as WSA are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's prospective client's evaluation of WSA or the integrity of its management. WSA does not have any such legal or disciplinary events in its history and therefore has no information to disclose with respect to this Item.

## **ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

WSA serves as investment manager of two Hedge Funds (one 3(c)(1) Hedge Fund and one 3(c)(7) Hedge Fund), which are organized as limited partnerships for the purpose of investing in publicly traded securities. WSA recognizes that its management of both hedge funds and other client accounts may give rise to potential material conflicts of interest between WSA's hedge funds and other client accounts. WSA has adopted policies and procedures to mitigate these conflicts, including the obligation to act in the best interest of all clients for which WSA provides investment management services. For information on WSA's side-by-side management of hedge funds and "long only" accounts, please refer to Item 6, above.

The General Partner of WSA's 3(c)(1) Hedge Fund is also the Managing Member of WSA. WSA does not solicit its clients or the public on behalf of the 3(c)(1) Hedge Fund. However, because of WSA's relationship to the 3(c)(1) Hedge Fund, should a person who is otherwise a client of WSA invest in the 3(c)(1) Hedge Fund, WSA recognizes the possibility that it could be considered to have recommended that investment. The 3(c)(1) Hedge Fund invests primarily in equity securities with the opportunistic use of short positions and derivative securities.

WSA serves as General Partner of a 3(c)(7) Hedge Fund. Although WSA does not advise clients to invest in its Hedge Fund offerings, it may market its 3(c)(7) Hedge Fund to existing clients but only when asked to do so by the client and/or when it considers this Hedge Fund to be appropriate for that client. Restrictions on the ownership of securities of the 3(c)(7) Hedge Fund are further described in the Fund's Offering Memorandum.

Certain limited partners invested in WSA's Hedge Funds may have affiliates which provide brokerage services to WSA for a variety of reasons, including providing WSA with access to certain investment opportunities that may not be available elsewhere. This may create a conflict of interest since the limited partner may inadvertently receive an indirect pecuniary benefit as a result of their affiliate doing business with WSA.

WSA does not recommend other investment managers and does not have any related persons who are, or have applications pending to become, broker-dealers or registered representatives of a broker-dealer. Except as indicated above, WSA has no other affiliations or business interests.

## **ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Description of Code of Ethics**

The Advisers Act imposes a fiduciary duty on all investment advisers to act in the best interest of its clients. Because WSA's investment professionals and associated persons may transact in the same securities for their personal accounts as they may buy or sell for client accounts (as described below), it is important to mitigate potential conflicts of interest. Accordingly, WSA has adopted a Code of Ethics ("Code") in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code establishes standards of conduct for WSA's supervised persons and includes general requirements that such supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, conflicts of interest and confidentiality of client information. It is the expressed policy of WSA that persons employed by WSA must at all times comply with the following principles: (1) The Clients Come First (all persons shall scrupulously avoid serving their personal interests ahead of the Clients of WSA); (2) Avoid Taking Advantage (persons may not use their knowledge of open, executed, or pending portfolio transactions to profit by the market effect of such transactions); and (3) Comply With the Code of Ethics (doubtful situations should be resolved in favor of the Client).

The Code also requires that certain of WSA's personnel (called "Access Persons") report their personal securities holdings and transactions and prohibits Access Persons from investing in certain investments such as initial public offerings and secondary offerings. Unless specifically permitted in the Code, none of WSA's Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of WSA's clients.

The Code also requires supervised persons to report any violations of the Code promptly to the Firm's Chief Compliance Officer ("CCO"). Each supervised person receives a copy of the Code and any amendments to it and must acknowledge in writing having received the materials. Annually, each supervised person must certify that he or she complied with the Code during that year. Clients may receive a copy of WSA's Code of Ethics by contacting the Chief Compliance Officer at (858) 551-6335.

### **B. Participation or Interest in Client Transactions**

It is WSA's policy not to enter into any principal transactions or agency cross transactions on behalf of client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

### C. Personal Trading

WSA and its principals, agents, and employees (“Associated Persons”) may invest personally in securities of the same classes as are purchased for WSA’s Hedge Funds or advisory client portfolios and may own securities of the issuers whose securities are subsequently purchased for clients. They may also buy or sell securities for their own accounts, based on personal investment considerations that they do not consider appropriate to buy or sell for clients. There are, however, many restrictions on such activities. WSA’s Code of Ethics contains certain requirements designed to address the conflicts that arise with regard to personal trading by WSA or its associated persons.

WSA's Hedge Funds may also invest to some extent in the securities of larger-capitalization companies and other companies not suited to other client accounts as well as short sales of publicly traded securities. In no cases will WSA, its employees, or the Hedge Funds short-sell securities that are owned in client accounts.

Associated Persons of WSA may have certain individual funds managed on a discretionary basis by independent advisors who may, from time to time, select securities also selected by WSA for its Client’s portfolios. It is WSA’s policy that the firm, its employees and other associated persons must scrupulously avoid serving their personal interests ahead of the interests of WSA clients. WSA has adopted a Code of Ethics expressing the firm’s commitment to ethical conduct. It is the expressed policy of WSA that no person employed by WSA shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decision of advisory clients. In recognition of the fact that situations may arise whereby individuals affiliated with WSA or its Associated Persons may buy or sell securities for their personal accounts identical or different than those recommended to clients, WSA has adopted policies and procedures to ensure that clients are not adversely affected by the personal trading activities of employees.

For example, Associated Persons are prohibited from purchasing or selling (either directly or indirectly) a security in a personal account if, at the time of the transaction, they have actual knowledge that the security: (i) is being considered for purchase or sale in a Client account; or (ii) is actually being purchased or sold in a Client account. Moreover, WSA has adopted “Blackout Periods” under which Associated Persons are prohibited from purchasing or selling a security within a certain period of time (typically seven days) prior to or after a purchase or sale of the same or related security by a WSA client account. There may be exceptions to these requirements; additionally, they are not applicable to transactions in certain securities, including, among others: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds. Please see WSA’s Code of Ethics for additional details on Blackout Periods.

WSA requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. Additionally, WSA's Insider Trading Policy contains written policies that are reasonably designed to prevent the unlawful use of material non-public information by WSA or any of its associated persons. Employees of WSA are required to report their personal securities transactions to the CCO.

## **ITEM 12 BROKERAGE PRACTICES**

Except in limited situations where WSA permits clients to direct brokerage (as described below), WSA will determine the broker-dealer to be used and negotiates the commission rates at which transactions for client accounts will be effected. When WSA places orders for the execution of portfolio transactions for client accounts, transactions are allocated to brokers and dealers for execution in various markets at prices and commission rates that, based upon good faith judgment, will be in the best interest of the client. In addition to using brokers as "agents" and paying commissions, WSA may effect transactions in securities directly from or to dealers acting as principal at prices that include markups or markdowns and may purchase from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers. In instances where WSA is placing orders for sub-advised mutual fund clients, it is the policy of WSA to not direct orders to particular broker/dealers to compensate them for promoting or selling sub-advised mutual fund shares.

### **A. Selection Criteria**

Factors which WSA considers in selecting or recommending broker-dealers for client transactions include order flow, research coverage, idea generation, Client direction, commission rates charged, volume discounts, financial responsibility and overall responsiveness. The primary objective in the placement of security transactions with specific brokers is to obtain the best overall execution possible. The following discussion summarizes the material aspects of WSA's practices in selecting broker-dealers to execute fully discretionary client transactions.

### **Best Execution**

It is the policy and practice of WSA to strive for the best price and execution that are competitive in relation to the value of the transaction ("best execution"). In order to achieve best execution, WSA will use its best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best overall qualitative execution. Although WSA will strive to achieve the best execution possible for client securities transactions, this does not require it to solicit competitive bids and WSA does not have an obligation to seek the lowest available commission cost. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while WSA will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions. WSA is not required to negotiate "execution only" commission rates, thus the client may be deemed to be paying for

research and related services (i.e., "soft dollars") provided by the broker which are included in the commission rate.

### **WSA's Internal Controls for Evaluating Brokers**

WSA's interactive working environment creates a unique opportunity for us to monitor each execution as it unfolds, continually ensuring trade decisions are an extension of every client's investment objectives. The firm's "Brokerage Committee," which consists of WSA's investment team and senior management, meets periodically to discuss the firm's trading practices. The Committee evaluates, among other things, execution quality, research rankings, quality of commission rates, brokerage relationships, services provided by the brokers and dealers, compliance with the firm's policies and potential enhancements necessary to improve the trading process. The Committee strives to ensure that our process conforms to recommended industry practices while also verifying that portfolios receive the highest degree of care.

### **How WSA Strives to Achieve Best Execution**

As a fiduciary to its advisory clients, WSA endeavors to seek best execution for client transactions. Best Execution can be mistakenly viewed to be merely "the lowest price on a particular trade." This interpretation, however, fails to reflect costs that are more qualitative in nature, such as: (1) opportunity costs, (2) timing/delay costs, and (3) market impact costs.

Although every effort is made to negotiate the best commission, it is possible that, from time to time, a lower commission might be available from another broker. Relevant factors considered in negotiating commissions include, but are not limited to, the broker's execution capabilities, research, and other services provided, which may directly benefit client portfolios and enhance the firm's portfolio management capabilities. Research services furnished by brokers through whom WSA effects securities transactions also may be used in servicing all of WSA's accounts. Likewise, not all of these services may necessarily be used by WSA in connection with the accounts that paid commissions to the broker providing such services. OTC trades are normally conducted through market makers on a principal basis. Commission rates on all trades (OTC and listed) may vary among accounts. WSA receives third party research and computer services in connection with placing eligible transactions through certain broker-dealers. In addition, WSA receives technical and fundamental analytical tools, printed journals, and computer software applications which are used to perform securities analysis, portfolio and benchmark analysis, risk analysis, and trade execution services on behalf of its clients in connection with placing transactions through certain brokers.

### **Evaluation of Best Execution**

As part of WSA's policy, evaluation of our best execution practices includes reviewing relevant information that quantifies the selection of our broker-dealers. This includes the price of execution, research, clearance/settlement capabilities, trade error rate, access to IPOs, and confidentiality, among other factors. We also utilize the services of an independent firm that periodically conducts trading cost analyses across WSA's key equity strategies and analyzes trading activity versus VWAP (volume weighted average price) benchmarks.

In addition, our traders and operations personnel regularly interact on settlement issues. During this process, each broker's performance is evaluated to assess the quality of executions. Traders and operations personnel monitor the historic market impact of each trader's block. Based on this analysis and our trading experience, WSA selects brokers that consistently give our clients the best execution with minimal market impact.

### **Research and Other Soft Dollar Benefits**

WSA may select a broker-dealer in recognition of the value of various services or products, beyond transaction execution, that such broker-dealer provides where, considering all relevant factors, it believes the broker-dealer can provide best execution. The amount of compensation (this may include disclosed markups and markdowns on riskless principal transactions with market-makers if WSA were to conduct such transactions) paid to such broker-dealer may be higher than what another, equally capable broker-dealer might charge. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars."

The receipt of such services may benefit WSA because WSA does not have to produce or pay for the research or other products or services if such products and services are obtained by using client commissions. Because the receipt of such services may be deemed to be the receipt of an economic benefit by WSA, and although customary, these arrangements present potential conflicts of interest in allocating securities transactional business to broker-dealers in exchange for soft dollar benefits, including an incentive to select or recommend a broker-dealer based on WSA's interest in receiving research or other products or services, rather than on the clients' interest in receiving the most favorable execution. Additionally, WSA may have an incentive to effect more transactions than might otherwise be the case in order to obtain those benefits. The extent of any such conflict depends in large part on the nature and uses of the services and products acquired with soft dollars. The agreements between WSA and its clients generally authorize WSA to use client soft dollars for a wide range of purposes. Therefore, WSA feels it is important for clients to be aware of the issues surrounding soft dollars.

WSA may use soft dollars to acquire a variety of "research" and "brokerage" services and products for which a client would not otherwise be required to pay. Section 28(e) of the Securities Exchange Act of 1934 recognizes the potential conflict of interest involved in this activity but protects investment managers such as WSA from claims that the activity involves a breach of fiduciary duty to advisory clients—even if the brokerage commissions paid are higher than the lowest available—if certain conditions and requirements are met. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to WSA in making investment decisions for its clients. "Brokerage" services and products are those used to effect securities transactions for WSA's clients or to assist in effecting those transactions. To be protected under Section 28(e), WSA must, among other things, determine that commissions paid are reasonable in light of the value of the brokerage and research services and products acquired. Section 28(e)'s safe harbor protects the use of client soft dollars even when WSA uses research and brokerage services and products to benefit other clients.

The types of research WSA expects to acquire include, but are not limited to: reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical and other software used in investment decision making; and other products or services that may enhance WSA's investment decision making. Therefore, research purchased with soft dollars may be used by WSA in servicing any or all of WSA's Clients, and may be used in connection with clients other than those who generated the brokerage, as permitted by Section 28(e).

Brokerage services and products (beyond typical execution services) that WSA may use include, but are not limited to: computer systems and facilities used for such things as communicating orders electronically to executing broker-dealers.

For trading in lesser-liquid micro, small, and mid-cap issues, WSA focuses on broker-dealers who actually make markets and provide liquidity in such small, lesser liquid issues. To be eligible for soft dollar credits, a trade must be either an Agency or Riskless Principal transaction in which both legs are executed at the same price, and that price is disclosed on a confirmation that also fully discloses the remuneration to the broker-dealer for effecting the transaction. WSA's best execution practices naturally result in soft dollar credits being generated by issues that are less subject to liquidity constraints.

In the event any products or services obtained by WSA with client commissions have "mixed uses," (*i.e.*, for research and non-research purposes), WSA will make a good faith and reasonable allocation of the cost of the product according to its use, in accordance with the SEC's interpretive guidance. In other words, the percentage of the service or product that provides assistance to WSA in the form of brokerage or research will be paid for in soft dollars (commissions), while the non-brokerage / research portion will be paid for by WSA using "hard dollars" (*i.e.*, through WSA's own funds). Although WSA will make a good faith and reasonable allocation of the eligible costs of the product or service for brokerage or research, the allocation determination itself poses a potential conflict of interest by WSA controlling the allocation of the costs for such services and benefits. Even where WSA's use of soft dollars to acquire research or brokerage services and products is protected by Section 28(e), there may be an additional conflict since there exists an incentive to overestimate the soft dollar portion allocated to the "mixed use" product or service in order to avoid paying for such brokerage or research with hard dollars.

WSA has taken several steps in order to mitigate such conflicts. Above all, WSA always strives to put the client's interests first. Additionally, in order to ensure that a good faith and reasonable allocation of the cost of mixed use items is made, WSA utilizes the following 3-step process in determining whether a product or service is research.

- Step 1 - Product Definition. The product or service is clearly defined with respect to its ability in providing assistance to the investment decision-making process.
- Step 2 - Determine Usage. The primary use of the product or service is evaluated to see how it will directly assist in the investment decision-making process.
- Step 3 - Mixed Use Analysis. WSA determines what portion of the research is used to directly assist in the investment decision-making process.

WSA maintains books and records concerning its mixed use allocations so as to be able to make the required good faith showing. WSA encourages our clients to ask how this research is used to assist in the investment decision-making process. All information concerning WSA's Soft Dollar Arrangements is available to its Clients upon request.

### **Directing Portfolio Executions to Compensate for Fund Shares Transactions**

Broker-dealers are selected on such variables as order flow, research coverage, idea generation, client direction, commission rates charged, volume discounts, financial responsibility, and overall responsiveness. It is WSA's policy that trades not be directed to a particular broker-dealer to compensate that broker-dealer for promoting sub-advised mutual fund shares. Normally, WSA does not know which broker-dealers are responsible for selling larger volumes of sub-advised mutual fund shares. As part of its trading policy, WSA does not seek disclosure from sub-advised mutual fund clients as to the volume of fund shares sold or promoted by particular broker-dealers. Additionally, it is the policy of our sub-advised mutual fund clients to not disclose such information. To avoid the appearance of a conflict of interest, WSA prohibits:

- (1) Taking into account a particular broker-dealer's promotion or the sale of sub-advised mutual fund shares when selecting broker-dealers; and
- (2) Entering into any agreement or understanding to direct portfolio securities transactions of certain other remuneration to broker-dealers in consideration for the sale of sub-advised mutual fund shares.

### **Prime Brokerage, Custody, Clearing and Settling - Partnerships**

WSA's 3(c)(1) and 3(c)(7) Hedge Funds have a prime brokerage arrangement with a registered broker-dealer (the "Prime Broker"). Under this arrangement, the Prime Broker, among other things: (i) arranges for the receipt and delivery of securities bought, sold, borrowed and lent; (ii) makes and receives payments for securities; (iii) maintains custody of cash and securities; (iv) tenders securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (v) provides detailed portfolio and related reports. WSA may cause the Hedge Funds to pay for custodial and related services either in cash or by allocating a portion of its business to the Prime Broker.

### **Directed Brokerage**

When a client requests or instructs WSA to direct a portion of the securities transactions for its account to a specified broker-dealer, WSA will treat the client direction as a decision by the client to retain trading discretion that WSA would otherwise have. Such discretion typically includes WSA's ability to select broker-dealers to effect transactions and the opportunity to negotiate the most favorable commission rate for client accounts. Although WSA will attempt to effect directed transactions in a manner consistent with its policy of seeking best execution and price on each transaction, there may be occasions where it is unable to do so, in which case WSA will continue to comply with the client's instructions on the basis stated above. A client, therefore, should consider whether the commissions, execution, clearance, settlement, custodial

fees, and other services provided under its commission direction would be comparable (based on service and price) to those otherwise obtainable. In certain cases, a client making such a designation also should understand that its directed brokerage instruction might cause it to lose the ability to participate in IPO offerings. A client making such a designation should also understand that it may lose the possible advantage that non-designating clients derive from aggregation of orders for several clients as a single transaction for the purchase or sale of a particular security. Under these circumstances:

- (1) The trading desk may not be authorized to negotiate commissions;
- (2) The trading desk may not be able to obtain volume discounts;
- (3) There may be a disparity in commission charges, execution, clearance and settlement capabilities and fees for custodial or other services among clients; and
- (4) Potential conflict of interests may arise from brokerage firm referrals.

It is necessary that WSA clients understand that in the event a client directs WSA to use a particular broker or dealer, WSA may not be authorized under those circumstances to negotiate commissions and may not be able to obtain volume discounts or best execution. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to clients who direct WSA to use a particular broker or dealer and other clients who do not direct WSA to use a particular broker or dealer.

When applicable, directed brokerage in ERISA accounts will likely be subject to additional restrictions as to not conflict with ERISA fiduciary requirements.

## **B. Aggregation and Allocation**

### **Trade Aggregation**

“Trade Aggregation” occurs when doing so is in the best interest of clients. The practice of aggregating (or “bunching”) trades is employed only when doing so is consistent with our duty to seek best execution. The firm receives no additional compensation of any kind as a result of aggregating trades. When aggregating trades, no clients are favored over others – participating accounts obtain shares at the average share price on the aggregated transaction. Filled aggregated orders are allocated in accordance with the Allocation Statement or pro-rata if the order is partially filled.

WSA endeavors to act in the client’s best interest whenever executing trades among various accounts that cannot be “bunched,” including accounts for which the client has requested or instructed WSA to direct a portion of the securities transactions for its account to a specified broker-dealer (“directed accounts”). Market conditions, the size of trading blocks, the expertise of the directed broker, previous order sequences, and the percentage of total brokerage directed may dictate how trade orders get executed and the order of execution between “directed accounts” and “non-directed accounts.” To provide the best execution possible for “directed accounts,” the trading desk will attempt to do one of the following:

1. Aggregate trades for “directed accounts” with “non-directed accounts” to obtain volume discounts, if possible. Accounts obtain shares at the average share price on the entire aggregated transaction.
2. If market conditions warrant, execute trades for “directed accounts” after (or before) “non-directed accounts.” Trades will be aggregated, if required, to obtain the best execution possible. Situations may occur when the trading desk must match the size of the trade to the available depth in the market on issues with limited liquidity. The judgment of the situation by the trading desk will determine the order in which trades will be executed (e.g., between “directed accounts” and “non-directed accounts”). Accounts obtain shares at the average share price of their respective aggregated transaction.
3. In the very rare instance where a “step out” is necessary, execute trades for “directed accounts” along with “non-directed accounts” as one block trade (using one executing broker), then “step out” selected accounts to corresponding directed brokers. In this case, trades for “directed accounts” and “non-directed accounts” may be aggregated separately but executed together. Accounts obtain shares at the average share price of their respective aggregated transaction.

In the case of WSA’s Model portfolio assignments, WSA strives to ensure that Model portfolio Clients do not receive distributed recommendations and updates in a sequence materially different from trades affected for WSA’s other Client accounts. Market conditions, the size of trading blocks, previous order sequences, and Model portal delays may dictate how distributed recommendations and trade orders get executed and the order of execution between Fully Discretionary Client Accounts and Model Portfolio Client Accounts. The judgment of the situation by the investment team (including portfolio managers and the trading desk) may also determine the order (e.g., between Fully Discretionary Client Accounts and Model Portfolio Client Accounts) that trades will be executed.

WSA performs investment advisory services for multiple clients. Under certain circumstances, portfolio transactions may be executed as part of concurrent authorizations to buy or sell the same security for numerous accounts serviced by WSA, some of which may have similar investment objectives. Although such concurrent authorizations could be either advantageous or disadvantageous as to a particular account, they will be affected only when WSA believes that to do so is in the best interests of the effected accounts. When such concurrent authorizations occur, WSA will seek the most equitable allocation of such executions among the effected accounts.

Through WSA's interest in its Hedge Funds, the Adviser invests in securities in which it also invests client funds. Purchases and sales of securities which are common to client accounts and WSA's Hedge Funds will be allocated pro-rata according to the relative sizes of accounts and desired position sizes among accounts. Great care is taken to avoid even the appearance of impropriety in all situations when trades for WSA clients and the Hedge Funds are aggregated. Prior to each aggregated trade, senior portfolio managers, traders and the Chief Compliance Officer discuss each account’s relative position size resulting from the initiation of an aggregated trade. The goal is that each aggregated trade allocation plan involving WSA clients and the

Hedge Funds be designed to treat each client fairly and equitably, without advantaging any client over another.

### Public Offering (“IPO” and Secondary) Allocation

Although WSA attempts to manage all accounts within a specific product offering equally, IPO and Secondary offerings may at times be handled differently. Upon subscription for an allocation, the appropriate group of accounts to receive the shares is chosen by the Portfolio Managers using factors such as market capitalization, cash availability, allocation size, the account’s current industry/sector weightings, and a client’s stated desire for WSA to direct brokerage. Because many allocations to WSA can be small in size, WSA attempts to rotate small IPO and Secondary allocations among client accounts within similar investment strategies (vs. large IPO allocations, which are generally made on a pro-rata basis to eligible client accounts). This could result in some clients not having an equal opportunity to participate in every IPO or Secondary “deal” offering, which may negatively impact overall investment returns for clients. WSA does attempt to rotate the smaller allocations among different accounts in a fair and equitable manner over time but can make no assurances that results will be equal.

### Trade Allocation

WSA seeks to allocate transactions and opportunities among the various accounts it manages in a manner it believes to be as equitable as possible. We consider each account’s objectives, limitations and capital available for investment, but even accounts with similar objectives will often have different investment portfolios. Conflicts of interest could arise in connection with transactions for the “Hedge Funds” and “long-only” client accounts. Summarily, such conflicts may include or arise out of, among other things, the following.

- Short Selling. WSA’s Hedge Funds may sell securities short as a regular part of its investing activities. In a short sale, a Hedge Fund sells securities it does not own in the hope that the market price will decline and that the Hedge Fund will be able to buy replacement securities later at a lower price. However, it is the policy of WSA that a Hedge Fund foregoes and does not establish short positions (or a derivative short position via a put option) in issues held in “long-only” client accounts. This prohibition helps WSA avoid possible conflicts of interest between our obligations to “long-only” client accounts and the Hedge Funds.
- Public Offerings. Although WSA’s “long-only” client accounts may invest in Public Offerings (IPOs and Secondaries), WSA currently prohibits its Hedge Funds from investing in new issues to avoid potential conflicts of interest between a Hedge Fund and “long-only” accounts.
- Options Transactions. Among the derivatives in which WSA’s Hedge Funds may invest or trade are options on specific securities. The Hedge Funds may buy or sell both call options and put options, both on a “covered” and “uncovered” basis. The Hedge Funds’ options transactions may be part of a hedging tactic (*i.e.*, to offset the risk involved in

another securities' position), a form of leverage in which a Hedge Fund has a right to benefit from price movements in securities with a small commitment of capital, or an attempt to obtain profits through premiums received on options a Hedge Fund writes. However, there may be times that a Hedge Fund must forgo establishing an options transaction that could be beneficial to a Hedge Fund because "long-only" accounts hold that underlying position long, creating a conflict that WSA must resolve in accordance with its obligations to "long-only" client accounts.

- Concentration of Investments. WSA's Hedge Funds are generally not limited in the types of securities in which they may invest, the types of positions they may take, or the amount of capital that may be committed to any single investment, industry or sector. To avoid any potential conflicts when allocating transactions among WSA's Hedge Funds and its "long only" client accounts, WSA has adopted a policy requiring, among other things, pre-clearance of proposed Hedge Fund transactions to ensure fair and equitable allocation among accounts.

WSA mitigates potential conflicts of interest between the Hedge Funds and "long-only" accounts as follows:

1. By having a policy on Hedge Fund transactions that is intended to ensure Hedge Fund transactions are conducted in accordance with WSA's fiduciary obligations and all applicable federal and state securities laws.
2. By requiring that all Hedge Fund transactions be pre-cleared by the Trading Desk, Senior Management, and the Chief Compliance Officer in order to confirm that proposed transactions are consistent with the firm's policy on Hedge Fund transactions.
3. All Hedge Fund and "long-only" transactions are conducted through WSA's Trading Desk, ensuring a central point of control and coordination.

A more comprehensive discussion of the potential conflicts of interest is contained in the Hedge Funds' offering documents (e.g., Limited Partnership Agreement, Offering Memorandum and Subscription Agreement).

#### Step Out Trades

WSA generally does not perform "step out" trades in the normal course of business. These trades typically incur an additional cost to the executing broker. We believe that these added costs might affect best execution efforts in the long run.

#### Treatment of ERISA accounts

Trading procedures for ERISA and non-ERISA accounts are the same (ERISA accounts must generally meet additional fiduciary requirements). However, client direction can have an impact on trading if the client provides specific guidelines for its account.

### Handling of Trade Errors

WSA's trading system employs: (1) a computerized order creation and management system, (2) color coding of orders, (3) standardized terminology, and (4) an experienced trade desk management. In the rare event that a trade error occurs during the transaction process, we take great care to uphold our fiduciary duty to clients. WSA does so by making sure clients receive fair and equitable treatment and not disadvantaging them in any way as we go about correcting trade errors. Trade errors generally are dealt with as they occur on a case-by-case basis, keeping the following factors in mind:

- The client must be "made whole."
- Soft dollars are not used to pay for correcting trading errors.
- Agency cross-transactions are not utilized to correct trading errors. Wall Street Associates, LLC never crosses trades between accounts.
- Trade errors are documented. Documentation is forwarded to WSA's President and Chief Compliance Officer and kept on file. The trade error file is maintained by the trading Desk.
- The firm's trade error process is periodically reviewed by supervisory personnel, including the Head Trader, Portfolio Managers and the Chief Compliance Officer to ensure all trade errors are handled quickly and correctly.

## **ITEM 13 REVIEW OF ACCOUNTS**

### **A. Periodic Reviews**

All portfolios across each of our product offerings are managed on a team basis, with individual responsibilities based on sector/industry specialty. Purchase and sale decisions by the team are made within the parameters of the firm's investment philosophy and process. Portfolio managers have complete discretion and responsibility for purchase and sale decisions within their area of specialization. Portfolios are consistently reviewed to ensure their suitability vs. investment criteria, portfolio strategy, and client guidelines.

Investment team members, along with representatives from marketing and client service, form WSA's Investment Strategy Group. This group meets multiple times each year to analyze portfolio attribution, control overall risk, assess the market environment, and manage sector, industry, and security exposure within client portfolios. This work augments the group's daily research/review of individual issues, weekly portfolio construction analysis to ensure strategy and guideline compliance, as well as the firm's ongoing risk management and dispersion control efforts.

### Reviewers

Membership of WSA's Investment Strategy Group is structured according to sector specialization and function. Portfolio managers, assisted by investment analysts, focus on designated sectors within all client portfolios. WSA's Investment Strategy Group meetings are

co-chaired by William Jeffery, III and Ted Smith. WSA's Investment Strategy Group is listed below.

Investment Strategy Group

**William Jeffery, III**

*President and Chief Investment Officer*

Responsible for all activities related to WSA. Serves as co-chair to WSA's Investment Strategy Group and oversees the Healthcare, Consumer Discretionary and Energy sectors for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies.

**Kenneth F. McCain**

*Executive Vice President and Portfolio Manager*

Serves as a member of WSA's Investment Strategy Group; oversees and conducts analysis for the Technology sector for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies.

**Paul K. LeCoq**

*Senior Vice President and Portfolio Manager*

Serves as a member of WSA's Investment Strategy Group and as an industry generalist for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, Mid Cap Growth, and GEEP strategies. Portfolio Manager of WSA's 3(c)(1) Hedge Fund.

**Paul J. Ariano, CFA**

*Senior Vice President and Portfolio Manager*

Serves as a member of WSA's Investment Strategy Group; and oversees and conducts analysis for the Healthcare, Consumer Discretionary, Energy and Transportation sectors for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies. Co-Portfolio Manager of WSA's 3(c)(7) Hedge Fund.

**Alexis C. Waadt**

*Vice President and Investment Analyst*

Serves as a member of WSA's Investment Strategy Group and is responsible for the fundamental analysis of individual securities and industry trends in the Technology sector for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies.

**Carl M. Wiese, CFA**

*Senior Vice President and Portfolio Manager*

Serves as a member of WSA's Investment Strategy Group; oversees and conducts analysis for the Business Services, Materials, Financials, and non-traditional growth sectors for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies. Co-Portfolio Manager of WSA's 3(c)(7) Hedge Fund.

**John J. Huber**

*Senior Vice President and Portfolio Manager*

Serves as a member of WSA's Investment Strategy Group; oversees and conducts analysis for WSA's Large Cap Growth and GEEP strategies.

**Daniel P. Foley**

*Investment Analyst*

Serves as a member of WSA's Investment Strategy Group and is responsible for fundamental analysis of individual securities and industry trends within his area of growth sector coverage for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies.

**Luke A. Jacobson, CFA**

*Investment Analyst*

Serves as a member of WSA's Investment Strategy Group and is responsible for fundamental analysis of individual securities and industry trends within his area of growth sector coverage for the Micro Cap Growth, Institutional Small Growth, Small-Mid Cap Growth, and Mid Cap Growth strategies.

**Ted C. Smith, CFA/CIC**

*Senior Vice President, Chief Operating Officer and Chief Compliance Officer*

Serves as co-chair of WSA's Investment Strategy Group and is responsible for portfolio risk management, quantitative analysis, research and investment strategy analysis.

**William W. Gastil**

*Senior Vice President and Head of Trading*

Serves as a member of WSA's Investment Strategy Group and is responsible for overseeing all aspects of trading for WSA.

**Kimberly A. Taylor**

*Senior Vice President, Client Services*

Serves as a member of WSA's Investment Strategy Group and is responsible for servicing the firm's client relationships.

**Rob R. Knowles**

*Senior Vice President, Director of Marketing*

Serves as a member of WSA's Investment Strategy Group and is responsible for marketing the firm's investment management services.

Our size and structure provide the benefits of an entrepreneurial business unencumbered by layers of management and lengthy approval processes. Investment team members work collaboratively together every day, sharing work space and resources with one another in a floor plan that is undivided by walls and centered around our trading desk. In this dynamic environment, process enhancements, research findings and investment ideas are openly examined and efficiently implemented. In addition to trading, separate groups are responsible for portfolio accounting and operations, leaving portfolio managers and analysts free

to focus nearly all their efforts on research and stock selection. In this dynamic environment, process enhancements, research findings and investment ideas are openly examined and efficiently implemented.

## **B. Other Reviews and Triggering Factors**

In addition to the periodic reviews described above, reviews may be triggered by changes in Client's guidelines and objectives and/or personal, tax or financial status changes. Other events that may trigger a review of an account are material changes in market conditions as well as macroeconomic and company-specific events. WSA client service and investment professionals are available for client meetings or conference calls as needed. We recommend at least 1-2 review meetings each year at a location which best suits the clients' needs.

## **C. Regular Reports**

Written brokerage statements are generated no less than quarterly and are sent directly from the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information.

In addition, performance schedules and detailed portfolio valuation reports are prepared and provided to every client at least quarterly. The quarterly report generally contains:

- Evaluations of the portfolio and general economic conditions which, in WSA's opinion, impact the portfolio;
- Information regarding each investment in the portfolio as of the valuation date, the number of units held, the value of such units, percent of assets and current yield;
- An asset summary;
- Annualized and calendar year performance;
- Company descriptions of each investment;
- Trade commissions (upon request); and
- A proxy voting report (upon request).

Clients are urged to compare the statements received from WSA to those received from the account custodian.

## **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

### **Economic Benefits Received**

WSA may enter into "soft dollar" arrangements whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist WSA in its investment decision-making process. The receipt of such services may be deemed to be the receipt of an economic benefit by WSA, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution.

A conflict of interest occurs when the personal interests of employees interfere or could potentially interfere with their responsibilities to the firm and its clients. The overriding principle is that employees should not accept inappropriate gifts, favors, entertainment, special accommodations, or other things of material value that could influence their decision-making or make them feel beholden to another person. Similarly, employees should not offer gifts, favors, entertainment or other things of value that could be viewed as overly generous or aimed at influencing decision-making or making a client feel beholden to the firm or the employee. The following provisions on gifts apply to all WSA employees, investment and marketing/client service personnel (“Associated Persons”).

#### Gifts

WSA’s Code of Ethics contains provisions on Gifts that apply to all WSA Associated Persons. To summarize, no WSA Associated Person may accept or give any gift, service or other thing of more than “de minimis” value (*i.e.*, \$300.00 US) from any person or entity that does business with or on behalf of the firm without documented approval of the Chief Compliance Officer. In addition, WSA’s President will review all approvals granted.

Please see WSA’s Code of Ethics for additional details.

#### Entertainment

WSA’s Code of Ethics contains provisions on Entertainment that apply to all WSA Associated Persons. To Summarize, No Associated Person may accept or provide extravagant or excessive entertainment to or from a client, prospective client, or any person or entity that does or seeks to do business with or on behalf of the firm. Associated Persons may, without pre-approval, accept or provide a business entertainment event of “reasonable value,” such as no more than \$300 per person, per event. Employees are required to obtain documented approval from the Chief Compliance Officer for any business entertainment event above this “reasonable value.” In addition, WSA’s President will review all approvals granted.

Please see WSA’s Code of Ethics for additional details.

#### Patterns Monitoring and Control

The case-by-case implementation of WSA’s Gifts & Entertainment procedures allows the Chief Compliance Officer to evaluate each request not in isolation but in the context of the nature of other items of gifts and entertainment received by employees. Additionally, the Code of Ethics incorporates periodic review and identification measures of “trends and patterns” and escalation measures such as, for example, a) Documentation of the number of instances of gifts and entertainment above and below the \$300 limitation that WSA employees may receive over time from external sources; b) Periodic self reporting of received items; c) Periodic review of gift and entertainment items received by each employee separately to identify “trends and patterns” for repetitive items below \$300 and overall value received; and d) Potential escalation to the Code of Ethics Review Committee for appropriate corrective actions and/or actions.

Please see WSA’s Code of Ethics for additional details.

## **ITEM 15 CUSTODY**

Under Rule 206(4)-2 (the “Custody Rule”), WSA will be deemed to have custody of client funds or securities by reason of the fact that WSA has authority to debit its fees directly from the client’s account. WSA does not physically possess client funds or securities. Custody of client assets will be maintained with an independent qualified custodian, except for certain privately offered securities (such as interests in a limited partnership or other pooled investment vehicle subject to annual audit), in which case ownership thereof is recorded only on the books of the issuer. If funds or securities are inadvertently received by WSA, they are returned to the sender within three (3) business days upon receipt.

WSA may only implement its investment management recommendations after the client has arranged for and furnished WSA with all information and authorization regarding accounts with appropriate financial institutions to act as custodian. In most cases, a client’s broker-dealer also may act as the custodian of the client’s assets for little or no extra cost. Clients should thoroughly consider, however, the differences between having their assets custodied at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains client’s assets. Clients are urged to carefully review all custodial statements and compare them to the statements provided by WSA. WSA’s statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

WSA may also be deemed to have custody of client assets based solely on the fact that it and its Managing Member serves as a General Partner to a Limited Partnership. Under the Custody Rule, advisers with custody are generally required to undergo an independent verification of the assets for which the adviser has custody through an annual surprise examination by an independent certified public accountant. WSA will be deemed to have complied with this requirement with respect to the accounts of WSA’s Hedge Funds because each Hedge Fund is subject to annual audit by an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board in accordance with its rules and the audited financial statements prepared in accordance with generally accepted accounting principles are distributed to all limited partners within 120 days of the end of the fiscal year. The Hedge Funds are also subject to audit upon liquidation and the audited financial statements are distributed to all limited partners promptly after the completion of such audit

## **ITEM 16 INVESTMENT DISCRETION**

Generally, all asset management services are performed on discretionary basis. In exercising its discretionary authority, WSA will normally determine: (1) the type of securities to be bought and sold, (2) the dollar amounts of the securities to be bought and sold, (3) whether a client’s transaction should be combined with those of other clients and traded as a “block,” and (4) the negotiated commission rates and/or transactions costs paid to effect the transactions, without first

obtaining client's permission for each transaction. Such discretion is to be exercised in a manner consistent with each client's stated investment objectives, risk tolerance, and time horizon. In addition, WSA's authority to trade securities may be limited in certain circumstances by applicable legal and regulatory requirements. Clients are permitted to impose reasonable limitations on WSA's discretionary authority, including restrictions on investing in certain securities or types of securities. All such limitations, restrictions, and investment guidelines must be provided to WSA in writing.

By signing WSA's Investment Management Agreement, clients authorize WSA to exercise full discretionary authority with respect to all investment transactions involving the client's account. The Investment Management Agreement grants WSA full discretion and sole authority to invest and reinvest all assets of the client's account in those securities, cash and/or other financial instruments in accordance with the client's stated investment guidelines and objectives and in accordance with WSA's investment strategy utilized for the account. WSA is authorized to enter into agreements and execute any documents required to effect transactions in the client's account and is further authorized to give instructions to third parties in furtherance of such authority.

## **ITEM 17 VOTING CLIENT SECURITIES**

### ***Proxy Voting Policy***

WSA recognizes that it is a fiduciary that owes its clients the duty of care and loyalty with respect to all services it provides to clients, including proxy voting. The duty of care requires an adviser with proxy voting authority to monitor corporate events and to vote the proxies. The duty of loyalty requires an adviser to cast proxy votes in a manner consistent with the best interest of its clients, at no time subrogating client interests to its own.

Rule 206(4)-6 of the Investment Advisers Act of 1940 requires formal proxy voting policies and procedures for SEC registered investment advisers with voting authority over client portfolio securities. Pursuant with this rule, WSA has adopted the following measures to meet the SEC's requirements.

- We have written proxy voting policies and procedures designed to help ensure that WSA votes proxies in the best interests of our clients; (this includes policies addressing material conflicts between the interests of WSA as the investment adviser and our clients).
- This disclosure document serves as our notification to clients of WSA's written proxy voting policy. We are happy to provide you with a copy of our policy in its entirety upon written request.
- As our client, you may obtain voting information from WSA on how we voted for your securities upon written request.

In accordance with the Rule, WSA maintains certain documentation, including a record of all votes cast in connection with its proxy voting activities for clients.

The following summarizes WSA's proxy voting policies and procedures. While WSA's policies and procedures cannot provide an exhaustive list of all the issues that may arise nor can WSA anticipate all future situations, the company will do its best to vote in its clients' best interest.

WSA has appointed a Proxy Voting Chairman to oversee the process for voting proxies and maintaining records on how proxies were voted. To assist the Proxy Voting Chairman, the Proxy Voting Committee is conferred with whenever a proxy-voting question arises. In analyzing proxies, WSA subscribes to an unaffiliated third party corporate governance proxy research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations and vote disclosure services. The proxy voting service is responsible for coordinating with custodians to ensure that all proxy material received by the custodians relating to portfolio securities is processed in a timely fashion.

Proxy votes are made on a case-by-case basis. In voting shares on economic issues, shares will not be automatically voted either for or against management on a particular economic issue but shall be voted based on an analysis of the impact of the vote on the economic value of the shares and solely in the interest of the plan's participants and beneficiaries.

If a conflict is potentially material, the Proxy Voting Chairman and Chief Compliance Officer will engage in an intensive fact gathering exercise. After assessing the circumstances one or more of the following actions may occur:

- (1) Follow the prescribed Proxy Voting Policy and Guidelines;
- (2) Split the votes;
- (3) Delegate the decision to a third party; or
- (4) Have the Client vote its own proxy, in cases where the Client has entered into an agreement to do so in the event of an actual material conflict.

WSA makes independent voting decisions and casts the votes in a timely and prudent fashion. In voting shares on economic issues, voting decisions are made independently of directions given or threats of loss of business expressed or implied by an opponent or proponent of an economic issue, including the issuer of shares, plan sponsors, any other fiduciaries of the plan, or their respective agents. At the request of plan sponsors, WSA votes stock held by such plans according to the following policy.

#### ERISA Clients

Under the Employee Retirement Security Act of 1974 ("ERISA"), a Trustee has a fiduciary responsibility to vote plan stock on ERISA issues presented to stockholders whenever it is perceived the outcome of the vote may have an impact on the economic value of the stock ("economic issues"). Accordingly, WSA will vote all proxies received from the Trustee with respect to shares on economic issues. Examples of such matters may be:

- Directors' liability;
- Classification of the Board of Directors;
- Cumulative voting; and/or, among other things
- Stock repurchases by the issuer.

WSA shall not undertake on behalf of ERISA plans initiatives to place proposals before an issuer's stockholders unless such initiatives are judged to be in the interest of the plan participants and beneficiaries, to be cost beneficial, and to be otherwise consistent with ERISA. Additionally, WSA will only vote ERISA plan proxies as are specified in the plan documents. If the plan documents are silent with regard to proxy voting, the responsibility will fall to WSA to vote these in accordance with its own written policies.

WSA may amend its proxy policies and procedures from time to time without prior notice to its clients. If you would like a copy of WSA's Proxy Voting Policies and Procedures, please contact our Chief Compliance Officer at (858) 551-6335.

## **ITEM 18 FINANCIAL INFORMATION**

WSA does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. WSA does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.