



## **Systematic Financial Management, L.P.**

### **Form ADV Part 2A**

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This Form ADV Part 2A (the "Brochure") provides information about the qualifications and business practices of Systematic Financial Management, L.P. ("Systematic" or the "Firm"). If you have questions about the contents of this Brochure, please contact us at (201) 928-1982 or via email at [clientservice@sfmlp.com](mailto:clientservice@sfmlp.com). The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Systematic is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Systematic who are registered, or are required to be registered, as investment adviser representatives of Systematic.

Although Systematic is registered as an investment adviser under the Investment Advisers Act of 1940, such registration does not imply that Systematic or our personnel have a certain level of skill or training.

**March 30, 2012**

## **Item 2 – Material Changes**

This Item requires Systematic to summarize any material changes to our Form ADV Part 2A since the firm's last filing on April 6, 2011. While we do not deem our changes to the current Form ADV Part 2A material, please note the following:

- Item 4: We updated our assets under management to approximately \$11.1 billion as of December 31, 2011 and explained the difference between this Item's assets under management and the Firm's Regulatory assets under management as reported in Systematic's Form ADV Part 1A.
- Items 6, 12 and 16: We updated our disclosures regarding brokerage and trading practices to include clients with certain trading preferences, as well as clients with specified brokerage arrangements.
- Item 8: We updated the descriptions of both our International Equity and quantitative Small Cap Equity strategies.
- Item 10: We updated our disclosure relating to AMG subsidiaries that may provide services in foreign jurisdictions.
- Items 5 and 11: We updated our disclosure concerning Systematic's management of mutual funds in which its employees may have a certain interest.
- Item 17: We updated our Proxy Voting Guidelines to include an additional proxy voting policy.

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## **Item 4 – Advisory Business**

Systematic's sole business is investment management and we expect to remain exclusively focused on this one important function. We foster a team approach to portfolio management and promote an environment that embraces our mission which is *to provide our clients with superior long-term investment results that consistently outperform their benchmark objectives and expectations*. In addition to our goal of achieving superior longer-term investment results, we strive to deliver the highest quality client service by providing our clients with a team of dedicated and experienced service professionals as well as through timely and thorough client communications and reporting. Our success has been driven by our team oriented approach to investing and our strict adherence in consistently applying our investing principles.

The Firm has provided value-oriented investment management services to institutional investors and private clients since 1982, on both a discretionary and non-discretionary basis. Systematic has selectively expanded its investment capabilities to meet the changing needs of our clients and today offers a broad array of equity investment offerings throughout the market capitalization spectrum.

Systematic currently has a total of approximately 47 employees, including clerical employees, working in Systematic's headquarters office which is located in Teaneck, New Jersey; as well as its offices in Jacksonville Beach, Florida and Newport Beach, California.

As of December 31, 2011, the Firm had approximately \$11,081,500,000 in assets under management.

Systematic serves as an investment adviser or sub-adviser to various clients, including, but not limited to, corporations and business entities, pension and profit sharing plans, mutual funds, single and multi-employer Taft-Hartley (union) plans, governmental entities, banks, collective investment funds, common trust funds, endowments and foundations, charitable organizations, individuals, trusts, and estates. Please see "Item 7 – Types of Clients" of this Brochure for more information with respect to Systematic's clients.

### **Principal Ownership**

Systematic's senior management shares ownership of the Firm with our institutional partner, Affiliated

Managers Group, Inc. ("AMG"), a publicly-traded asset management company (NYSE: AMG) with equity investments in boutique investment management firms. AMG indirectly holds a majority interest in Systematic. Systematic's senior management owns the remaining interest as limited partners. Systematic's Management Committee maintains autonomous control of the Firm's investment process as well as the overall management of the business. Management Committee Members include:

- **Kevin McCreesh**, Chief Investment Officer and Lead Portfolio Manager for the Firm's Large Cap Value and Small Cap Value Equity portfolios;
- **Greg Wood**, Head Trader;
- **Kenneth Burgess**, Lead Portfolio Manager for the Firm's Free Cash Flow Equity portfolios;
- **Ron Mushock**, Lead Portfolio Manager for the Firm's Mid Cap Value and SMID Cap Value Equity portfolios;
- **Karen E. Kohler**, Chief Operating Officer & Chief Compliance Officer; and
- **Eoin Middaugh**, Lead Portfolio Manager for the Firm's International Equity and Quantitative portfolios.

AMG also holds equity interests in other investment management firms ("AMG Affiliates") and has substantial resources dedicated to the investment management business and the growth of their Affiliate partners, which are available to Systematic in its sole discretion. Further information on both AMG and AMG's Affiliates is provided in "Item 10 – Other Financial Industry Activities and Affiliations" of this Brochure.

### **Advisory Services**

Systematic serves as an investment manager specializing in value equity investing. In executing its value equity investing disciplines, Systematic uses a process to uncover securities that our research suggests are of high quality and undervalued, and which have an identified catalyst for price appreciation. The Firm's investment strategies unify what we deem to be the best attributes of quantitative screening and fundamental, bottom-up stock selection process in an integrated, robust and repeatable process. Bottom-up investing de-emphasizes the significance of economic and market cycles; thus focusing on the analysis of individual

stocks rather than on the industry in which that company operates or on the economy as a whole.

Systematic believes that investing in companies with a combination of attractive valuations and a positive earnings catalyst will generate superior investment results that outperform the benchmark over the long term. These catalysts, which are identified through Systematic's internal fundamental research, serve as an indicator for positive earnings. While it is possible to find other companies that are trading at discounts relative to the market and their industry peers, we believe those companies often remain undervalued due to the absence of such catalysts to trigger stock price appreciation. Thus, Systematic's value investing process focuses on the avoidance of companies that, in our view, are comparatively cheap but lack an identifiable reason to achieve fair value. In addition to our investments in equity securities, from time to time, Systematic may offer advice with respect to foreign exchange contracts, currency forwards for hedging purposes and money market cash equivalent funds, short term investment vehicles, and other cash equivalent vehicles.

Systematic's quantitative and fundamental, bottom-up research stock selection processes are described in more detail in "Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss" of this Brochure.

While the majority of Systematic's investment advisory accounts are discretionary, the Firm also manages advisory accounts not involving discretionary management services such as multi-manager, multi-discipline investment products and diversified manager allocation products, which include the provision of a model portfolio to another manager. In these instances, the other manager (which in some instances may be an AMG Affiliate ) has investment discretion over the accounts, and is responsible for monitoring the individual needs of the client. Systematic will provide investment management services to non-discretionary program clients based upon the information and guidelines provided by the other manager.

On occasion, a client may request, and we may allow, that a security be brought into the client's account which will not be subject to our discretionary management services. In such instances, Systematic does not exert any discretion over the relevant holding and generally does not include the holding when determining the client's fees.

As an asset manager principally for institutional clients, Systematic recognizes that all of our clients are unique and as such their investment needs may be different. Consequently, while we will not alter our philosophy and approach to value equity investing, we may tailor our primary investment strategies, as necessary, to meet the specific goals our clients specify (such as socially responsible investing, restricting investments in politically-sensitive regions, or in certain types of securities, like foreign issuers or REITs) in an effort to accommodate the particular investment objectives and accompanying restrictions requested by our clients. At the commencement of the client relationship, each of our clients executes an investment management agreement, which sets forth their investment objectives, investment strategy and any investment restrictions that will be applicable to our management of the assets in the client's account. Prior to the execution of the agreement, we review requested investment objectives and restrictions and work with the client as needed to refine these objectives and restrictions to both meet the client's needs and provide us with sufficient discretion to properly invest the client's assets according to Systematic's investment strategies.

## **Wrap Fee Programs**

"Wrap arrangements," "wrap fee programs," and/or "wrap fee accounts" involve individually-managed accounts for individual or institutional clients. The wrap fee accounts are offered as part of a larger program by a "sponsor," usually a brokerage, banking or investment advisory firm, and managed by one or more investment advisers. Systematic has agreements with several brokerage, bank or investment advisory firms (sponsors) who sponsor "wrap fee" programs where Systematic acts as adviser or subadviser to the wrap program and provides investment management services to those clients who select Systematic as part of the program. As described in "Item 5 – Fees and Compensation" of this Brochure, the sponsor typically pays a portion of its program fee to Systematic for its services.

Generally, Systematic's management of wrap fee accounts and other accounts under the same investment strategy is consistent. Although we cannot necessarily offer the same level of portfolio customization to wrap fee accounts that is offered to other accounts within an investment strategy, we do offer our wrap fee clients the opportunity to customize their portfolios by imposing reasonable investment restrictions on their account.

In addition, when trading for our wrap fee program accounts, Systematic may trade with different broker/dealers than for our other accounts even when trading in the same security pursuant to the same strategy. When trading in our wrap fee accounts, and while Systematic continues to seek best execution when selecting brokers, trades for wrap fee program accounts are typically directed to the wrap fee program sponsor (or its designated broker/dealer), since brokerage commissions are included in the wrap fee. In such situations, Systematic may be required to trade a wrap fee program's accounts separately from other accounts being managed within the same strategy. As described in "Item 12-Brokerage Practices," while directed brokerage is designed to benefit the wrap fee program account through lower trading costs, there may be some circumstances where directed trades do not receive the best price, or where dividing the trade into separate components may inhibit Systematic's ability to obtain the same level of or as timely an execution as it may otherwise have been able to obtain if it had been able to execute the entire trade with one broker/dealer. Wrap program accounts also generally do not participate in new issues, such as initial public offerings ("IPOs"). Operational limitations with these types of accounts make trading away from the sponsor difficult. To the extent that Systematic trades away from the sponsor by placing trades with a different brokerage firm, the client will typically incur the costs associated with this trading, in addition to the wrap fees normally payable. Subject to these limitations, Systematic continues to employ methods, such as trade rotation and periodic brokerage review, in an effort to reduce the impact of these issues. Clients who enroll in these programs should satisfy themselves that the sponsor is able to provide best price and execution of transactions.

Systematic engages in wrap programs involving both single-contract and dual-contract accounts. In a single contract, the sponsor typically provides a level of research and due diligence on Systematic and often stands as a co-fiduciary with Systematic. Customers execute one contract with the sponsor. Dual contract programs require a customer to execute two separate contracts: one covering services provided by the sponsor; and the other covering separate the investment management services provided by Systematic.

Please see additional information regarding wrap fee programs in "Item 5 – Fees and Compensation."

## **Assets Under Management**

As noted above, as of December 31, 2011, Systematic's client assets under management total ("AUM") was approximately \$11,081,500,000. Of this amount, \$11,010,000,000 was managed by Systematic on a discretionary basis, and \$71,500,000 was managed by Systematic on a non-discretionary basis. Systematic's Regulatory AUM in the Firm's Form ADV Part 1A Item 5.F is current as of the date of filing the Form ADV, but includes only those accounts that were active as of December 31, 2011. The Firm's Regulatory AUM further excludes any non-discretionary assets because Systematic did not include those accounts for which Systematic provides a model portfolio to another manager but does not place trades for the underlying accounts, as described in the "Advisory Services" section of this Item. Additionally, whereas the discretionary portion of Systematic's Regulatory AUM does not deduct the short equity positions from the long equity positions in valuing Systematic's Large Cap Value 130/30 portfolio, this AUM includes the portfolio's value net of the short equity positions. Please see additional information regarding the Large Cap Value 130/30 portfolio strategy in "Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss."

## **Item 5 – Fees and Compensation**

### **Standard Fee Schedules**

Systematic is compensated for its investment advisory services through payments of fees made by our clients. Systematic's standard fee schedule of annual rates for fully discretionary separately managed portfolios is set forth below. This standard fee schedule may be modified from time to time.

#### **Large Cap Value**

0.65% of the first \$25 million;  
0.45% of the next \$50 million; and  
0.35% over \$75 million

#### **Small Cap Value**

#### **Small Cap Free Cash Flow**

#### **Small Cap Equity (Quantitative)**

1.00% of the first \$25 million;  
0.75% of the next \$50 million; and  
0.60% over \$75 million

**SMID Cap Value**

0.85% of the first \$25 million;  
0.75% of the next \$50 million; and  
0.60% over \$75 million

**Mid Cap Value**

0.75% of the first \$25 million;  
0.50% of the next \$50 million; and  
0.40% over \$75 million

**Select Equity (All Cap) Value**

0.70% of the first \$25 million;  
0.50% of the next \$50 million; and  
0.40% over \$75 million

**International Equity**

0.80% on the first \$25 million;  
0.65% on the next \$50 million; and  
0.50% on balance

Notwithstanding the fee schedules noted above, and subject to applicable laws and regulations, Systematic retains discretion over the fees that it charges to its clients, as well as any changes in its fee schedules. Fees may be negotiated in Systematic's sole discretion in light of a client's special circumstances, such as asset levels, service requirements, or other factors. In some cases, Systematic may agree to offer clients a fee schedule that is lower than that of other comparable clients in the same investment style. In addition, there may be historical fee schedules with longstanding clients that differ from those applicable to new client relationships. For comparable services, other investment advisers may charge higher or lower fees than those charged by Systematic. Advisory fees may be subject to a specified annual minimum fee or maintenance of a certain minimum amount of contributed capital; however, Systematic reserves the right to waive all or a portion of its management fee and negotiate minimum annual fees or asset levels.

Fees for advisory services are generally billed either monthly or quarterly, in advance or in arrears, and are prorated to the date of termination if the client terminates their relationship with Systematic. Upon account termination, any unearned fees paid in advance will be refunded promptly. Fees are also prorated at the inception of the investment advisory agreement to cover only the period of time the account assets were under management.

The fees charged to clients generally are computed as a percentage of the value of the assets under management. To calculate advisory fees, Systematic generally relies on prices provided by third-party pricing services, custodians, and/or broker/dealers or

platform sponsors for purposes of valuing portfolio securities held in client accounts.

Although, under normal circumstances, Systematic generally does not invest in securities requiring fair valuation, Systematic may, on occasion, be required to "fair value price" a security when a market price for that security is not readily available or when Systematic has reason to believe that the market price is unreliable. When "fair value pricing" a security, Systematic will use various sources of information at its disposal to determine a fair price that the security would obtain in the marketplace if, in fact, a market for the security existed. For any fair value securities, Systematic maintains written policies and procedures relating to the pricing process in an effort to mitigate any conflicts of interest with respect to valuation. In the event that market quotations are not readily available for a portfolio security, Systematic will employ the last traded price for valuation purposes. Systematic's policies and procedures also set forth a series of factors that should be considered during the fair valuation process. In no event will a member of the portfolio management team make the final decision on the value of a portfolio security.

While Systematic generally does not offer performance-based fee arrangements, from time to time, the Firm may agree to these fee structures in light of various client requests, and such fees are negotiable. In all instances, fees based in whole or in part on the performance of an account are structured in compliance with applicable laws and regulations. See "Item 6 – Performance-Based Fees and Side-by-Side Management" for further information.

**Fees for Specialized Accounts and Advisory Services*****Sub-advisory Arrangements***

Systematic has been engaged by certain investment advisers (including advisers to registered investment companies) to manage certain accounts of such advisers. In its capacity as "sub-advisor" to such accounts, Systematic's fees and services are determined by contract with the adviser. Information concerning these sub-advised funds, including descriptions of the services provided and advisory fees, is generally contained in each fund's prospectus or other offering documents, which are generally available at the relevant fund's website. Other fees payable as an investor in a sub-advised fund or other account are described below, and also in the fund's prospectus or the fund adviser's fee brochure or client investment management agreement.

### ***Wrap Fee Programs***

For additional information with respect to wrap fee programs, please see the sub-section entitled “Wrap Fee Programs” under “Item 4 - Advisory Business” of this Brochure.

With regard to wrap fee program accounts, the all-inclusive fee charged by the sponsor may exceed the aggregate cost of the services provided if such services were negotiated and purchased separately, depending on:

- the level of the all-inclusive fee;
- the amount of trading activity in a client’s account;
- the cost of brokerage commissions (which costs are typically negotiated between the client and the broker/dealer, rather than by Systematic, with transactions being effected either by the broker/dealer or a third party);
- the value of any other services rendered to the client; and
- other miscellaneous factors.

Clients in these programs generally pay the wrap program sponsor a single fee (called a “wrap fee”) for consulting, brokerage, custodial, portfolio monitoring, and investment management services, typically up to 3% of the assets under management. The fees paid by clients for investing in a wrap fee account are set by the sponsor, and are generally disclosed in the sponsor’s contract established with each client. The sponsoring firm then pays Systematic a portion of this wrap fee.

Depending on the level of the all inclusive fee, the amount of trading activity in a client’s account, the cost of brokerage commissions (which costs are typically negotiated between the client and the broker/dealer, rather than by Systematic, with transactions being effected either by the broker/dealer or a third party), and the value of any other services rendered to the client as well as other factors, the all-inclusive fee may exceed the aggregate cost of the services provided if such services were negotiated and purchased separately.

For wrap fee programs, fees are typically paid to Systematic by the sponsor and are due quarterly, generally in advance. In all cases, the wrap fee sponsor deducts the client’s all-inclusive fee from the clients account and then remits to Systematic a portion of the sponsor’s fee for Systematic’s investment management services. Any prepaid unearned fees previously paid to Systematic by the

sponsor are refunded on a pro rata basis upon termination of Systematic as the wrap fee manager under the agreement by the client.

Systematic provides investment management services to wrap clients based upon the information and guidelines provided by the sponsor. Wrap account program clients should review all materials available from the sponsor concerning the program sponsor and the wrap program’s terms, conditions, and fees. Systematic does not dictate the overall fee schedule for wrap fee programs (including non-discretionary programs), and participants or clients in such programs should be aware that wrap account fees may at times be higher than the fees that accounts might pay to retain Systematic directly outside of a wrap fee product if such accounts meet minimum thresholds for single client accounts. Systematic does not undertake to determine or assess the extent or value of services provided to wrap account program clients by their respective sponsors, nor does Systematic generally have access to the information necessary to make such an assessment.

For detailed information on the wrap fees charged by each wrap fee program sponsor, please refer to the specific sponsor’s Form ADV Part 2A, Appendix 1.

For additional information regarding transaction charges for wrap fee accounts, please see “Item 4 – Advisory Business” and the “Directed Brokerage” sub-section of “Item 12 – Brokerage Practices” of this Brochure.

### ***Retail (Non-Wrap Fee) Clients***

In some instances, retail clients who are not in wrap fee programs may request that all transactions for their accounts be directed to specified brokers. These clients are charged brokerage commissions by these specified brokers, as well as a management fee by Systematic. For additional information about such directed brokerage arrangements, please see the “Directed Brokerage” sub-section of “Item 12 – Brokerage Practices” of this Brochure.

### ***Non-Discretionary Programs***

Systematic also provides non-discretionary investment management services, such as multi-manager, multi-discipline investment products and diversified manager allocation products, which include the provision of a model portfolio to a program sponsor. Please see “Item 4 – Advisory Business” of this Brochure for additional information regarding these arrangements. In such programs, the client typically pays the program sponsor an all-



inclusive fee, a portion of which is paid to Systematic as compensation for the investment advisory services that it renders to the sponsor.

### ***Other Non-Discretionary Assets***

On occasion, a client may request that a security be brought into the client's account which will not be subject to our discretionary management services. Please see a description of such arrangements in "Item 4 – Advisory Business." As previously noted, Systematic generally does not include such holdings when calculating client fees.

### **Additional Fees and Expenses Payable by Clients**

Systematic's fees are exclusive of brokerage commissions, transaction fees, other service provider fees, and other related costs and expenses which will be incurred by the client. Execution of client transactions typically requires payment of brokerage commissions by clients. "Item 12 – Brokerage Practices" further describes the factors that Systematic considers in selecting or recommending broker/dealers for the execution of transactions and determining the reasonableness of their compensation (e.g., commissions). Investment activity may also involve other transaction fees payable by clients, such as sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. In addition, clients may incur certain charges imposed by custodians, broker/dealers, third-party investment consultants, and other third parties, such as custodial fees, consulting fees, administrative fees, fund administration and transfer agency fees.

### **Fees for Investment of Client Assets in Third-Party Exchange-Traded Funds, Custodian Short-Term Investment Funds, and Other Short Term Pooled Vehicles (including Money Market Mutual Funds)**

At times, Systematic may invest clients' assets in third-party exchange-traded funds ("ETFs"), or excess cash held in client accounts may be temporarily invested by the accounts' custodians in the custodians' short-term investment funds ("STIFs") or other short-term pooled investment vehicles, including money market mutual funds. To the extent that a client's assets are invested in such other funds or short-term pooled investment vehicles, the client will also typically pay management and/or

other fees to each such fund or vehicle that are in addition to the fees paid by the client to Systematic. Those fees are described in the prospectus or other offering documents of each such fund or vehicle. Such charges, fees, and commissions are exclusive of, and in addition to, Systematic's investment management fee.

Specifically, fees for investments in ETFs, STIFs, or short-term pooled investment vehicles (including money market mutual funds) generally include two types: shareholder fees and annual fund operating expenses. Shareholder fees may include:

- Redemption fees (fees paid to the fund or vehicle upon the sale of shares, which generally do not apply to ETFs);
- Exchange fees (fees charged for transferring to another fund within the same fund group); and
- Account fees (account maintenance fees).

Annual fund operating fees may include:

- Management fees (fees paid to an adviser or its affiliates for managing the fund or vehicle);
- Distribution and/or service fees (fees for distribution expenses, and sometimes shareholder service expenses); and
- Other expenses (miscellaneous expenses, such as custodial expenses, legal expenses, accounting expenses, transfer agent expenses, and other administrative expenses).

Clients whose assets are invested in ETFs, STIFs, or other short-term pooled investment vehicles may pay some or all of the above fees. Clients should review the prospectus or offering documents of any fund or short-term pooled investment vehicle in which their assets are invested in order to understand the fees that may be applicable to their particular investment.

### **Fees for the Sale of Securities**

Systematic is compensated through the stated management fee agreed upon in the investment advisory agreement. The Firm does not receive compensation related to the sale of securities or other investments products that are purchased or sold for its clients' accounts. Although Systematic's employees do not receive compensation directly related to the sale of securities or other investments of clients, Systematic may consider the sale of interests in mutual funds subadvised by Systematic when determining certain employees' compensation. This compensation, however, is payable by Systematic to its employees and not borne by the

Firm's clients or the funds' investors. Accordingly, Systematic believes that it does not have any conflicts of interest regarding the receipt of additional compensation relating to the client assets that we manage, except as specifically disclosed from time to time. Please see additional information regarding Systematic's management of mutual funds in which its employees may have an interest in "Item 11 – Participation or Interest in Client Transactions."

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

### **Side-by-Side Management**

Our investment professionals simultaneously manage multiple types of portfolios (including institutional separate accounts, sub-advised mutual funds, and retail wrap accounts) according to the same or a similar investment strategy (i.e., side-by-side management). The simultaneous management of these different investment products may be deemed to create certain conflicts of interest, as the fees for the management of certain types of products may be higher than others. When managing the assets of such accounts, Systematic has an affirmative duty to treat all such accounts fairly and equitably over time and maintains a series of controls in furtherance of this goal.

Nonetheless, each account within a strategy will not necessarily be managed the same at all times. Specifically, there is no requirement that Systematic use the same investment practices consistently across all accounts. In general, investment decisions for each separately managed client account will be made independently from those of other separately managed client accounts, and will be made with specific reference to the individual needs and objectives of each client account. Different client guidelines and/or differences within particular investment strategies may lead to the use of different investment practices for portfolios within an investment strategy. Systematic may not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible portfolios, particularly if different portfolios have materially different amounts of capital under management by Systematic or different amounts of investable cash available. As a result, although Systematic manages numerous portfolios with similar or identical investment objectives, or may manage accounts with different objectives that trade in the same securities, the portfolio decisions relating to

these accounts, and the performance resulting from such decisions, may differ from portfolio to portfolio.

Systematic may manage client accounts that employ leverage and establish short positions. The investment strategies and techniques that Systematic employs for a long-short portfolio may differ significantly from long-only portfolios and typically have different investment objectives, time horizons and risk profiles. Portfolio managers who manage long-short strategies also manage more traditional long-only portfolios. Systematic recognizes that conflicts exist when a firm manages both long and short strategies. Systematic manages these conflicts through additional investment restrictions (for example, generally Systematic will not maintain opposing positions (short/long) in the same issuer), internal review processes, and oversight, all of which are designed to manage side-by-side management issues.

Since side-by-side management of various types of portfolios raises the possibility of favorable or preferential treatment of a portfolio or a group of portfolios, Systematic has implemented a series of controls to further its efforts to treat all accounts fairly and equitably. For example, Systematic has implemented a trade allocation policy. Under this policy, all accounts within a trade order will receive a portion of the executed order on a pro rata basis. Generally, orders will be processed on a first in, first out basis. Pursuant to the policy, the Trading Department will typically place all incoming orders on an equal time basis in calculating pro rata allocations and average price, provided that the time between contact and order receipt are reasonable in relation to the decision-making process on the part of the portfolio managers involved. A delay could occur between the placing of orders for various accounts as Systematic may be required to direct brokerage pursuant to a client's request or await confirmation of order placement from a client's trading desk should an account desire to place its own trades. The Firm also uses an automated trade order management system, which generally implements a pro rata allocation across all accounts within a given strategy (subject to any restrictions on individual accounts). Within a particular investment strategy, client accounts are typically managed based on a model, which reduces performance dispersion across accounts. In addition, performance across accounts within a particular investment strategy is checked regularly by portfolio managers to identify outliers, if any, and the Operations Department reviews performance dispersion as well. The Firm also

performs periodic strategy level reviews to measure attribution and style drift.

For a discussion of allocation practices involving investments in which the firm has an interest, please see “Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading.” For a discussion of the Firm’s policy and practices with respect to pro rata allocation and allocation of limited investment opportunities, please see the “Trade Aggregation” sub-section of “Item 12 – Brokerage Practices.”

## **Performance-Based Fees**

While Systematic generally does not offer performance-based fee arrangements, from time to time the Firm may agree to such a structure in light of various client requests. A performance-based fee is a fee representing an asset manager’s compensation for managing an account which is based upon a percentage of the net profits of the account being managed. When calculating net profits, performance-based fees may be based on absolute or benchmark relative returns. We may have both performance-based fee accounts and asset-based fee accounts within a particular investment strategy.

Performance-based fees create certain inherent conflicts of interest with respect to Systematic’s management of assets. Specifically, our entitlement to a performance-based fee in managing one or more accounts may create an incentive for us to take risks in managing assets that we would not otherwise take in the absence of such arrangements. Additionally, since performance-based fees reward us for strong performance in accounts which are subject to such fees, we may have an incentive to favor these accounts over those that have asset-based fees (i.e., fees based simply on the amount of assets under management in an account) with respect to areas such as trading opportunities, trade allocation, and allocation of new investment opportunities. For comparable services, other investment advisers may charge higher or lower fees than those charged by Systematic.

To maintain fair and equitable treatment of all of accounts over time, Systematic has implemented a series of controls to further its efforts to treat all accounts fairly, regardless of their corresponding fee-structure. Those controls are discussed above in the “Side-by-Side Management” sub-section of this Item 6.

## **Item 7 – Types of Clients**

### **Types of Clients**

As noted in “Item 4 – Advisory Business” of this Brochure, Systematic serves as an investment adviser or sub-adviser to various clients, including, but not limited to corporations and business entities, pension and profit sharing plans, mutual funds, single and multi-employer Taft-Hartley (union) plans, governmental entities, banks, collective investment funds, common trust funds, endowments and foundations, charitable organizations, individuals, trusts, and estates.

### **Conditions for Managing Accounts**

For discretionary, separate account mandates, Systematic generally requires a minimum account value of \$10,000,000 for each new client in its Large Cap Value, Mid Cap Value and SMID Cap Value strategies; \$5,000,000 for each new client in its Small Cap Value, Small Cap Free Cash Flow and Small Cap Equity strategies; \$1,000,000 for each new client in its Select Equity (All Cap) Value strategy; and \$25,000,000 for each new client in its International Equity strategy. As noted in “Item 4 – Advisory Business” of this Brochure, Systematic participates as an investment adviser or sub-adviser in investment management programs, sponsored by investment management divisions of several brokerages, banks, and other investment advisory firms, including Wrap Fee programs. Systematic generally permits individual participants in those programs to establish accounts with a minimum value of \$100,000. However, in those circumstances where Systematic serves as an adviser within a wrap fee program or is an adviser or sub-adviser to other funds or accounts, the account minimums are generally determined by the relevant wrap fee program sponsor, fund, or account.

Under certain circumstances, Systematic may waive these minimum account size requirements in its sole discretion on a case-by-case basis. Generally, Systematic requires each client to execute an investment management agreement that details the nature of the discretionary investment advisory authority given to Systematic.

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

### **Introduction**

As described in “Item 4 – Advisory Business” of this Brochure, Systematic is an asset management firm specializing in value equity investing. As further described below, each of our investment strategies is managed by a portfolio manager or group of portfolio managers in a manner consistent with our approach to investing. Systematic generally utilizes a model portfolio and a team approach in the management of our client accounts.

Our team approach consists of portfolio managers and equity analysts overseeing the management of our client accounts. Each strategy is managed by a lead portfolio manager who has ultimate responsibility for all client accounts invested in that particular strategy. Each strategy also has a primary backup portfolio manager who can make decisions in the absence of the lead manager.

In addition to our portfolio management professionals, Systematic has a dedicated team of research analysts who continuously monitor existing portfolio investments and seek to identify new investment opportunities for our client accounts. Investment responsibilities are centralized and generally organized by economic (or market) sector across all market capitalization ranges. An economic sector is an area of the economy in which businesses share the same or a related product or service. Investors typically categorize the economy into 10 economic sectors which include the following: Materials, Industrials, Telecommunication Services, Financials, Consumer Staples, Utilities, Energy, Consumer Discretionary, Health Care and Information Technology. A company’s market capitalization represents the market value of a company’s stock, and is calculated by multiplying the market price of a stock by the total number of shares outstanding.

### **Methods of Analysis**

Systematic’s security analysis methods include both quantitative and fundamental analysis. Quantitative analysis involves the use of proprietary automated investment models developed by the Firm to select securities. In contrast, fundamental analysis is a method of evaluating a security in which Systematic attempts to determine the intrinsic value of a security by examining certain economic, financial, and other

qualitative and quantitative factors, including both macroeconomic factors, such as the overall economy and industry conditions, as well as company-specific factors, such as the quality of management.

Accordingly, our quantitative analysts are responsible for maintaining and enhancing our proprietary models, which are used as a productivity tool in screening and ranking the universe of eligible securities and generates our “Research Focus Lists.” The Research Focus Lists are generally composed of the highest ranking securities in each of the 10 economic sectors for our strategies. The screening process results in a focus list of companies that meet our investment criteria. Quantitative analysts are also responsible for maintaining the integrity of the data Systematic uses in its ranking procedures, and ongoing factor testing.

Systematic’s quantitative process typically utilizes a two-stage screening process for new stock idea generation. First, we value companies utilizing a proprietary multifactor/sector-specific ranking methodology. Second, we rank companies according to our proprietary Earnings Catalyst Model, which encompasses operational, expectational, and quality factor inputs. An earnings catalyst is a series of data points that attempt to provide information from which an investor can determine whether a company has reached a sustainable level of improvement or is deteriorating in its earnings lifecycle. Earnings lifecycle is the concept that every public company, throughout its existence, will experience periods of more favorable to less favorable earnings.

The quantitative models used by Systematic in our screening process are as follows:

- Valuation (Multi-factor/Sector Specific) Model (ranks universe by low forward price to earnings ratio (“P/E”)). Price to earnings ratio is a measure of stock valuation, calculated by dividing the market price of a stock by its earnings per share. For example, a stock selling for \$20 per share that earned \$2 per share in the last 12 months has a P/E ratio of 10;
- Earnings Catalyst Model (ranks universe by potential catalysts for price appreciation); and
- Cash Flow Model (ranks universe by cash flow generation).

The screening process employed by our proprietary models considers publicly-available input data from independent third-party research sources. Input data includes stock prices and other fundamental data,

such as sales and earnings. The proprietary algorithms and calculations used to rank the universe are owned by Systematic.

While our quantitative processes enable us to develop the Research Focus Lists, investment decisions are generally driven by our fundamental analysis of the stocks on this list. Systematic utilizes a multi-step fundamental research process designed to validate (or challenge) the output from our quantitative models. Our fundamental equity research analysts generally conduct research on Research Focus List(s) stocks, although at times, they may research companies that are not in the top screening results. Their fundamental analysis typically entails actions such as reviewing annual reports and SEC filings (e.g., 10Ks), evaluating company accounting practices, reviewing balance sheet and off-balance sheet items, interviewing company management, attending company and/or analyst presentations, and developing valuation models. The analysts communicate stock ideas to portfolio management personnel.

Portfolio managers have authority over which stocks are ultimately included in client portfolios for a particular strategy. Portfolio positions are thereafter subjected to an ongoing rigorous monitoring process to determine potential sell triggers including, among others, company fundamental deterioration or high valuation. The portfolio managers also have ultimate authority over the sell discipline. Stocks which are sold are then typically replaced by the process just described. Company fundamentals are qualitative and quantitative factors which investors attempt to utilize in their analysis of a company that contribute to its economic well-being (examples of these factors include, but are not limited to, a company's balance sheet and income statement). A stock that is expensively priced in comparison to stock in other companies in the same industry. Typically, when a stock is referred to as high-valuation, its price-earnings ratio (P/E ratio) is higher than other companies in its industry.

Systematic may also consider technical analysis. Technical analysis is a method of evaluating securities by analyzing market statistics, such as past prices and volume. In performing technical analysis, Systematic may use charts and other tools to attempt to identify patterns relating to the potential future activity of a security. Nonetheless, quantitative and technical analysis inputs are secondary to fundamental research.

## **Information Sources**

In evaluating securities, the main sources of information used by Systematic include, but are not limited to, financial newspapers and magazines, research materials prepared by third parties, corporate rating services reports relating to historical prices of securities, dividends, and earnings, annual reports, prospectuses, filings with the SEC, and company press releases. Other sources of information used may include earnings (actual as well as Wall Street consensus earnings estimates) and cash flow models prepared by Systematic's investment analysts, interviews with representatives of a company's management, and interviews with the company's customers, suppliers, or competitors. Wall Street consensus earnings estimates are based on the combined earnings estimates predicted by the various Wall Street ("sell-side") analysts covering a public company.

Our research effort principally depends on our internal security research with additional input coming from several outside sources. Research from outside sources is utilized to gain additional information on the companies already on our Research Focus Lists. Such external research may include information from third-party financial databases and research provided by external "sell-side" analysts. We integrate our in-house research efforts with external research in order to confirm information about potential and existing company holdings, as well as gain additional insights into companies followed by our research team. Our fundamental and quantitative research is conducted out of our Teaneck, New Jersey and Newport Beach, California offices.

## **Current Investment Strategies**

Our investment strategies include the following, certain of which, at a client's request, Systematic may combine in one portfolio or mutual fund:

### **Value Equity Style**

Systematic's Value Equity strategies invest in companies generally consistent with the market capitalization range of the relevant Russell Value Index (Russell 1000®, 2000®, 2500™ or Midcap® Value Index depending upon the strategy's capitalization mandate) which, based on our research, possess a combination of attractive valuations and a positive earnings catalyst.

Systematic's Value Equity style includes the following portfolio offerings:

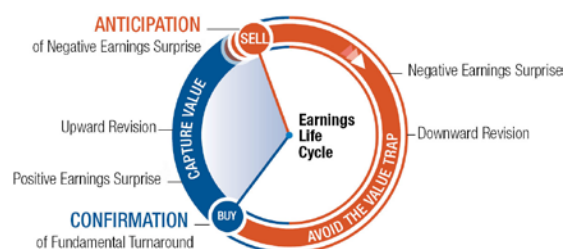
- Large Cap Value
- Large Cap Value 130/30
- Mid Cap Value
- Mid Cap Value Focus
- SMID Cap Value
- SMID Cap Value Focus
- Small Cap Value
- Select (All Cap) Equity

Systematic's Value Equity investment philosophy is predicated on our belief that investing in companies with a combination of attractive valuations and a positive earnings catalyst will generate superior long-term results that outperform the benchmark over the long term. We do not buy companies simply because traditional valuation methods may deem them bargains. All too often, in our view, stock prices can languish because there is no catalyst for the stock's price to rise. Our objective is to invest in companies that, based on our research, have a confirmed catalyst for stock price appreciation which, if realized, will provide our clients with investment results that should exceed the benchmark over the long term.

Systematic's Value Equity investment process begins with a universe of stocks (U.S. Equity, REITs, ADRs and foreign securities traded on U.S. markets) generally within the market capitalization range of the respective Russell Index. Real Estate Investment Trust (REIT) is a company that purchases and manages real estate and/or real estate loans. Some REITs specialize in purchasing long-term mortgages while others actually buy real estate. Income earned by a trust is generally passed through and taxed to the stockholders rather than to the REIT. American Depositary Receipts (ADRs) represent shares of a foreign company that can be purchased in the U.S., with transactions settled and dividends paid in U.S. dollars. When an investor purchases ADR shares, the bank makes a deposit abroad to buy the actual shares of the foreign stock. Companies issuing ADRs are required to follow U.S. regulatory and accounting rules.

Our initial quantitative screening process ranks companies by attractive valuation and a positive earnings catalyst. The screening process results in a focus list of approximately 150 companies that quantitatively meet our investment and liquidity criteria.

Once a company earns a position on our research focus list, our qualitative fundamental internal research and due diligence process derive important investment criteria. The first step in this process gauges Investor Expectations. We believe stock prices are a reflection of consensus earnings estimates, and as revisions of those estimates rise or fall, stock prices will follow suit. When companies report earnings that fall short of Wall Street consensus estimates, future earnings estimates are generally revised lower, causing share prices to depreciate. Companies in this stage of their earnings cycle often appear to be attractive, based upon valuation. We believe these companies represent a "value trap" and should be avoided. Stocks in the "value trap" are those that have value characteristics, but never outperform the market because there is no catalyst - trigger for change - for them to do so. Companies such as these tend to persistently disappoint investors, leading to P/E ratio compression and further stock price decline.



Our investment strategy attempts to avoid stocks in the value trap by focusing only on those companies, in our view, with confirmed fundamental improvement as evidenced by a genuine positive earnings surprise, which is when the earnings reported in a company's quarterly or annual report are above Wall Street analysts' earnings estimates. In the face of deteriorating company fundamentals, many companies will attempt to guide Wall Street estimates downward, in order to exceed expectations, and create a "statistical" earnings surprise. We are not interested in buying these types of companies for our clients' portfolios. A genuine earnings surprise occurs only when a company exceeds flat to rising earnings estimates due to improving fundamentals. Once we determine that a company has reported a genuine earnings surprise, we begin the Financial Statement Analysis portion of the research process. Our objective at this point is to identify the source of the earnings surprise, determine whether we believe it's sustainable, and ascertain if it's likely to trigger upward revisions to earnings estimates. We examine the operational or "above the line" items of the income statement (sales growth, gross margins, and operating expenses) and compare them to

expectations. We also examine all “below the line” items (other income, tax rate, interest expense and shares outstanding). We are seeking operational earnings surprises, driven by improving revenues and operating margins that are likely to trigger positive estimate revisions and expanding P/E ratios. Surprises driven by “below the line” items, in our opinion, are inherently unsustainable, and unlikely to be rewarded by the market.

We also examine balance sheet and cash flow statements in an attempt to validate the quality of earnings. We seek to avoid companies where management is using aggressive or misleading accounting techniques to overstate profitability. Earnings based upon accrual accounting are subject to numerous managerial estimates and assumptions. By doctoring these subjective elements, management can easily inflate earnings by accelerating revenue recognition, deferring expenses, or both. Therefore, our process also incorporates cash flow analysis, which is much more difficult to manipulate than earnings. Cash flow analysis is the study of the cycle of a business' cash inflows and outflows, which involves examining the components of a business that affect cash flow, such as accounts receivable, inventory, accounts payable, and credit terms.

We also attempt to identify red flags that could indicate deceptive accounting techniques include: profits growing faster than cash flow, sales growth slower than expected coupled with an unexpectedly rapid rate of inventory growth, unusual increases in accounts receivable, margin deterioration, and frequent or large charges against earnings. Based on the research, once we become convinced an earnings catalyst for price appreciation is in place, we begin the third step in the investment process, assessing Company Valuation. Our objective is to evaluate the attractiveness of each company on both an absolute and a relative basis. Ideally, the company should trade at a discount to the market benchmark, its peers in its economic sector / industry group, and at the lower end of its own historical valuation range. In addition to price to earnings ratios, we employ a variety of valuation measures including, price to cash flow, price to sales, price to book, and dividend yield. Price to cash flow is a measure of stock valuation, intended to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company's operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or equivalently, divide the per-share stock price by the per-share operating cash flow. In theory, the lower a stock's price/cash flow ratio is,

the better value that stock is. Price to sales is a measure of stock valuation which is calculated by dividing the company's price by its revenues. Price to book is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. For example, a stock selling for \$20 per share with wholesale book value of \$5 per share has a P/B ratio of 4. Dividend yield is the current dividend per share of a stock divided by its current price per share. For example, a stock with a price of \$100 per share paying a dividend of \$5 per share would have a dividend yield of 5%.

Certain valuation approaches are more (or less) important for different companies depending upon their industry/sector classification and at which stage they are at in their earnings life cycle. The final component of our process is what we call Fundamental Due Diligence. During this phase, we combine both public information (Wall Street research, company sponsored conference calls, presentations or web casts, SEC filings, annual reports, etc.) with proprietary research methods to understand the key drivers to company fundamentals.

A portfolio of approximately 55 to 90 (depending on product) of what we believe to be our best ideas is constructed on a bottom-up basis with sector allocations a residual of this process. Purchase and sell decisions are made by our investment team with lead responsibility by the respective portfolio manager. Our portfolio managers and analysts are in continuous communication regarding existing holdings and new investment opportunities. It is through this collaborative process that securities are identified for purchase or sale.

Our sell discipline reflects the inverse of our selection methodology. We buy on “confirmation” of a catalyst for price appreciation. We sell in “anticipation” of downward estimate revisions. We sell stocks when price appreciation causes company valuation to expand to fair value. In addition, we sell companies if other investment opportunities present more attractive prospects from a valuation and expected return basis. We also sell companies if our analysis leads us to anticipate downward estimate revisions. Finally, in the less likely event of a reported significant negative earnings surprise, we typically eliminate the position from our portfolio. Negative earnings surprise is when earnings reported in a company's quarterly or annual report are below Wall Street analysts' earnings estimates.

Risk reduction is a primary objective of our investment process. We employ a number of risk control measures in the implementation of our Value Equity strategies through our ongoing fundamental research and disciplined investment process. Company specific risk is measured and managed through the fundamental research process. The objective of our research effort is not only to identify securities that have upside potential, but also to reduce the risk of loss by purchasing companies with attractive valuations and a positive earnings catalyst. Our quantitative screens incorporate minimum liquidity thresholds in an attempt to help ensure we do not establish a position in a stock that will not be able to effectively trade without having an undue impact on the share price. Our focus on reducing the risk of loss is also important because we generally employ a fully invested strategy, with cash typically less than five percent of the portfolio. Consequently, cash is not a primary risk management tool. Company specific risk is also managed through prudent diversification of the portfolio. Portfolio concentration risk is further addressed through diversification by sector and industry. We generally limit the portfolio to a maximum of 30 percent in any one economic sector and five percent in any individual stock at market. Additionally, our sector weightings generally remain within +/- five percent (within +/- 10 percent for Select Equity) of the benchmark's sector weight. These exposures are consistently monitored through a variety of systems. Volatility of returns is also measured and compared to the relevant benchmark to ensure that it is reasonable in light of the returns produced relative to the benchmark.

In implementing Systematic's Value Equity investment strategies, the Firm generally employs the concept of active trading, rather than a "buy and hold" philosophy. As such, Systematic typically has annualized turnover in excess of 100% (approximately one third of which is generally attributable to trimming and adding to existing positions, and approximately two thirds of which typically involves complete sale and replacement (adding new stocks)). Turnover rates among the different Value Equity investment strategies will vary with the smaller to medium sized market capitalization strategies typically experiencing higher turnover rates. In utilizing this active trading concept, we seek to outperform passive indexes over time, as well as other low turnover benchmarks. Turnover is the number of shares traded for a period as a percentage of the total shares in a portfolio or of an exchange.

Systematic's Large Cap Value 130/30 strategy is an extension of our Large Cap Value discipline. As the name implies, this portfolio is generally long, approximately 130% of the equity in the account, and short, approximately 30% of the equity. Selling short equities involves selling equities which we do not actually own, but which we hope to cover by buying back the sold items at a lower price, and thus earning a profit. The Large Cap Value 130/30 Equity portfolio is constructed using both a fundamental and quantitative approach and seeks to invest in companies (through U.S. Equity, ADRs, and foreign securities traded on U.S. markets) generally consistent with the market capitalization range of the Russell 1000® Index, Russell 1000® Value Index and S&P 500 Index.

### **Free Cash Flow Style**

Systematic's Free Cash Flow strategies seek to invest in companies that Systematic believes possess superior financial strength, evidenced by strong cash flow characteristics and strong debt coverage ratios consistent with the market capitalization range of the Russell 2000® Index.

Systematic's Free Cash Flow portfolio offerings include:

Small Cap  
Small Cap Focus  
SMID Cap

Systematic's Free Cash Flow investment process begins with a universe of stocks (U.S. Equity, REITs, ADRs and foreign securities traded on U.S. markets) generally within the market capitalization range of the Russell 2000® Index for the Small Cap Free Cash Flow strategies or the Russell 2500™ Index in the case of our SMID Cap Free Cash Flow investment offering.

Our initial quantitative screening process seeks to identify companies with the following characteristics:

- Low price to operating cash flow,
- Low price to free cash flow,
- Low enterprise value to free cash flow,
- Low total debt-to-equity and
- Strong debt coverage.

The screening process results in a focus list of approximately 200 companies that quantitatively meet our investment and liquidity criteria.



The investment team then performs fundamental analysis which includes a comprehensive review of historical operating results, including sales, earnings, operating and free cash flow, debt and debt coverage ratios. Our research team also analyzes and reviews balance sheet and off balance sheet items, the current business model, company management, and key industry trends in order to project future operating results and determine appropriate valuations based on price-to-earnings multiple, operating cash flow multiple, free cash flow multiple and discounted free cash flow. Further analysis is performed to identify what we believe is adequate trading liquidity and any potential catalyst for share price appreciation. The objective of our fundamental and quantitative process is to find well-managed, financially sound companies that are trading at a discount to intrinsic value, are generating strong operating and free cash flow, and have a catalyst for stock price appreciation.

A portfolio of generally 100 to 150 of what we believe to be our best ideas is constructed on a bottom-up basis with sector allocations a residual of this process. Purchase and sell decisions are made by our investment team with lead responsibility for this portfolio from the lead portfolio manager. The portfolio manager and analysts are in continuous communication regarding existing holdings and new investment opportunities. It is through this collaborative process that securities are identified for purchase or sale. Holdings become sell candidates if they trade at a premium to intrinsic value, exhibit deteriorating operating results, show a meaningful increase in financial leverage, or superior investment alternatives exist.

Our process is designed to produce above-average returns over the long-term with lower volatility than small cap stock indices or other traditional small cap products. A high quality company, in our opinion, possesses good financial strength while executing a proven business model that generates positive amounts of free cash flow. By focusing on companies that have the ability to retire all outstanding debt within ten years based on expected levels of free cash flow, an additional margin of safety for our clients can be achieved. We believe that a company's value is equal to its discounted future cash flows. Though earnings and earnings forecasts are important, we believe cash flows provide the truest measure of a firm's viability and operation. We do not attempt to deviate from our investment discipline regardless of changes in economic or market conditions.

Risk reduction is a primary objective of our investment process. As part of our risk controls, we generally limit individual stock weightings to a maximum of five percent. The actual stock weighting for each security is determined by the portfolio manager and based on a variety of factors such as: size, liquidity, market, sector, industry trends, alternative options, and finally the confidence level and conviction of the portfolio manager. Our quantitative screen builds in a minimum liquidity threshold to help ensure we do not establish a position in a stock that we will not be able to effectively trade without having an undue impact on the share price. In addition, since we focus on the combination of strong free cash flow and limited debt, we believe the companies in our portfolio have the staying power to weather both economic cycles and short term swings in investor sentiment. Our focus on minimizing the risk of loss is also important because we employ a fully invested strategy, with cash typically less than five percent of the portfolio. Consequently, cash is not a primary risk management tool. Therefore, it is important that the companies we own exhibit defensive characteristics in a down market. The strict adherence to this discipline has historically resulted in reduced down market variance as illustrated in our downside semi-variance since inception vs. the Russell 2000® Value.

### **International Equity**

Systematic's International Equity investment philosophy is predicated on our belief that investing in companies with a combination of attractive valuations and a positive catalyst will generate superior long-term results that outperform the benchmark over the long term. We do not buy companies simply because traditional valuation methods deem them bargains. All too often, stock prices can languish because there is no catalyst for the stock's price to rise. Our objective is to invest in companies that, in our view, have a confirmed catalyst for stock price appreciation which, if realized, provide our clients with investment results that should exceed the benchmark over the long term.

Systematic's International Equity investment strategy employs both quantitative and qualitative methods in order to build a portfolio that we believe will add value for our clients. The investment process begins with a quantitative screening of the universe of stocks which are generally within the country and market capitalization range of the MSCI EAFE® index. Companies passing the screens are ranked by proprietary models, which contain an array of factors that our research has shown may impact prospective stock performance. The models employ multiple

bases for comparison with the goal of finding companies that demonstrate an attractive valuation and have positive catalysts for share price appreciation. This process results in a focus list of companies that quantitatively meet our investment and liquidity criteria and are therefore eligible for inclusion in the portfolio.

The portfolio construction process incorporates our judgment through a qualitative review of individual securities and overall portfolio position. In reviewing individual securities, we seek to better understand company fundamentals, investor expectations and valuation. A focus of our qualitative work is determining whether or not we believe the catalyst identified by our models is high quality in nature, sustainable, and, in our view, likely to generate stock price appreciation. We also analyze company valuation relative to peers, the market overall and its own historical valuation range. One objective is to evaluate a company's attractiveness on both an absolute and a relative basis. Ideally, the company should trade at a discount to the market benchmark, its peers in its economic sector / industry group, and at the lower end of its own historical valuation range. In addition to price to earnings ratios, we may employ a variety of valuation measures including, price to cash flow, price to sales, price to book, and dividend yield. Certain valuation approaches are more (or less) important for different companies depending upon their industry/sector classification and at which stage they are at in their earnings life cycle.

Utilizing both our proprietary model rankings as well as our judgment, we construct a diversified portfolio of approximately 70 to 120 securities. Purchase and sell decisions are made by our investment team with lead responsibility by the lead portfolio manager. The portfolio manager and analysts are in continuous communication regarding existing holdings and new investment opportunities. It is through this collaborative process that securities are identified for purchase or sale.

Our sell discipline reflects the inverse of our selection methodology. We employ both quantitative and qualitative analysis in determining anticipated share price depreciation. In addition, we may sell companies if other investment opportunities present more attractive prospects from a valuation and expected return basis.

Risk reduction is a primary objective of our investment process. We employ a number of risk control measures in the implementation of our

International Equity strategy through our disciplined investment process. Company specific risk is measured and managed through the quantitative analysis and qualitative research process. A primary objective of our research effort is not only to identify securities that have upside potential, but also to reduce the risk of loss by purchasing companies with attractive valuations and a positive catalyst for share price appreciation. Our quantitative screen builds in a minimum liquidity threshold to help ensure we do not establish a position in a stock that will not be able to effectively trade without having an undue impact on the share price. Our focus on reducing the risk of loss is also important because we employ a fully invested strategy, with cash typically less than five percent of the portfolio. Consequently, cash is not a primary risk management tool. Company specific risk is also managed through prudent diversification of the portfolio. Portfolio concentration risk is further addressed through diversification by sector and industry. We generally limit the portfolio to a maximum of 30 percent in any one economic sector and five percent in any individual stock at market. Additionally, our sector weightings generally remain within +/- five percent of the benchmark's sector weight. These exposures are consistently monitored through a variety of systems. Volatility of returns is also measured and compared to the relevant benchmark to ensure that it is reasonable in light of the returns produced relative to the benchmark.

### **Quantitative Style**

Systematic's Small Cap Equity strategy and the short component of the Firm's Large Cap Value 130/30 Equity strategy are primarily derived quantitatively. (See Value Equity style above for the description of our Large Cap Value 130/30 Equity strategy.)

### **Small Cap Equity**

Our Small Cap Equity strategy seeks to exploit inefficiencies in the domestic small cap market through a disciplined quantitative approach to security selection and portfolio management.

Systematic's Small Cap Equity investment strategy originates with a quantitative screen to identify companies trading on U.S. exchanges (U.S. Equities, ADRs and/or foreign securities trading on U.S. Exchanges) with market capitalization generally within the range of the Russell 2000® Index that meet our liquidity requirements to ensure that they can be traded efficiently. The companies passing these screens make up our investable universe and are ranked by our security selection model. The model contains a broad array of individual factors

that measure company and security characteristics that our research has shown may impact future stock price performance. These factors can generally be grouped into six broad categories: valuation, earnings quality, capital deployment, financial position, operating efficiency and investor expectations. Individual factor rankings are combined to arrive at a master ranking for each company, which determines whether a stock is bought or sold. We may adjust the model at our discretion by, for example, adding or deleting factors, revising the investment parameters, changing the portfolio's construction, and modifying weightings, rankings and/or groupings of individual factors and securities.

Portfolio construction and management are rules-based with a minimum amount of human intervention. Securities are purchased and sold when they meet defined ranking levels. Companies in the portfolio are also sold if they fall outside the general market capitalization range of the Russell 2000® Index. The portfolio is rebalanced approximately monthly, with securities qualifying for purchase or sale added or removed at this time. The exception to these rules is in cases where we have substantive reasons to doubt the validity of the data relied upon by the model to produce a company's ranking. This process yields a portfolio with exposure to all economic sectors through approximately equally weighted positions in about 250 to 400 companies.

We believe the ultimate strength of this strategy lies in its ability to produce a portfolio that, in aggregate, maintains objective and economically meaningful exposures to the factors which our research has shown to be indicative of prospective outperformance.

Risk reduction is a primary objective of our investment process and a number of risk control measures are employed in this strategy. Our quantitative screen builds in a minimum liquidity threshold to help ensure we do not establish a position in a stock that we will not be able to effectively trade without having an undue impact on the share price. Company specific risk and portfolio concentration risk are managed through the broad and prudent diversification of the portfolio, both in terms of individual company position size and overall economic sector weightings. Additional risk controls include our strict sell discipline and formal monthly rebalancing process.

## Risks

The investment strategies utilized by Systematic carry different levels of risk. In each strategy, all securities include a risk of loss of principal and any profits that have not been realized. The stock markets, bond markets, and derivatives markets fluctuate substantially over time and, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets the Firm manages on our clients' behalf, and such a loss may be out of our control. We cannot guarantee any level of performance and cannot guarantee that our clients will not experience a loss of their account assets. Each of Systematic's strategies has the potential for the clients' assets to decline in value.

The risks inherent in our investment strategies and styles are primarily the risks of equity investing. These risks include, but are not limited to:

- General equity market risk: The market prices of the client's portfolio securities may go up or down, sometime rapidly or unpredictably. If the market prices of the securities owned by the fund fall, the value of your investment portfolio will decline. The value of a security may fall due to general market conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest rates or currency rates, lack of liquidity in the markets or adverse investor sentiment. Market prices of securities also may go down due to events or conditions that affect particular sectors or issuers. Client's portfolios may experience a substantial or complete loss of any individual security.
- Stock/Company specific risks: Stocks may be volatile – their prices may go up and down dramatically over the shorter term. These price movements may result from factors affecting individual companies (e.g., quality of management risk, reputational risk, price per share risk, and product development risk), industries, the securities market as a whole or the overall economy. Because the stocks a portfolio holds fluctuate in price, the value of the client's portfolio will go up and down.
- Portfolio Selection Risk: The value of your portfolio may decrease if the investment manager's judgment about the attractiveness, quality, value or market trends affecting a particular security, industry or sector is incorrect.

- Portfolio concentration risk: risk of an uneven distribution of one type of industry sector in the portfolio.
- Volatility of returns (standard deviation): the variation of stock prices related to the return of the overall portfolio. Standard deviation is a statistical measure of the range of a portfolio's performance. A high standard deviation suggests a wider range of returns and indicates that there is a greater potential for volatility.
- Sector risk: Companies that are in similar industry sectors may be similarly affected by particular economic or market events. To the extent an account has substantial holdings within a particular sector, the risks associated with that sector increase.

In addition, some of the specific risks to which client assets may be susceptible, depending on account strategy, are as follows:

- Value stock risk: Value stocks can react differently to issuer, political, market, and economic developments than the market as a whole and other types of stocks. Value stocks tend to be inexpensive relative to their earnings or assets compared to other types of stocks. However, value stocks can continue to be inexpensive for long periods of time and may not ever realize their full value.
- Small- or Medium-Sized Companies: Investing in small- and medium-sized companies involves greater risk than is customarily associated with more established companies. Stocks of such companies, particularly developing companies, generally are subject to more volatility in price than larger company securities. Among the reasons for the greater price volatility are the less certain growth prospects of smaller companies, the lower degree of liquidity in the markets for such securities, and the great sensitivity of smaller companies to changing economic conditions. Smaller companies often have limited product lines, markets, or financial resources and their management may lack depth and experience. Such companies usually do not pay significant dividends that could cushion returns in a falling market.
- Liquidity Risk: Liquidity risk exists when particular investments are difficult to sell. Although most of a portfolio's securities are generally liquid at the time of investment, securities may become illiquid after purchase by the portfolio, such as during periods of market turmoil. When a portfolio holds illiquid investments, the portfolio may be harder to

value, especially in changing markets, and if a portfolio is forced to sell these investments to meet redemptions or for other cash needs, the portfolio may suffer a loss. In addition, when illiquidity in the market exists for certain securities, a portfolio, due to limitations on the investments in illiquid securities, may be unable to achieve its desired level of exposure to a certain sector.

- Focused Investing Risk: Focusing investments in a small number of issuers increases risk. A focused portfolio may be more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be. A focused portfolio's performance may be more volatile than a portfolio that holds a greater variety of securities.
- Active Trading Risk: Portfolios that are actively managed and, under appropriate circumstances, may purchase and sell securities without regard to the length of time held. A high portfolio turnover rate may have a negative impact on performance by increasing transaction costs and may generate greater tax liabilities for clients with taxable accounts.
- Real Estate Investment Trusts (REITs) Risk: Equity REITs can be affected by any changes in the value of the properties owned. A REIT's performance depends on the types and locations of the properties it owns and on how well it manages those properties or loan financings. A decline in rental income could occur because of extended vacancies, increased competition from other properties, tenants' failure to pay rent or poor management. A REIT's performance also depends on the company's ability to finance property purchases and renovations and manage its cash flows. Because REITs are typically invested in a number of projects or in a particular market segment, they are more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments. Loss of status as a qualified REIT or changes in the treatment of REITs under the federal tax law, could adversely affect the value of a particular REIT or the market for REITs as a whole.
- Foreign Securities Risk: Investments in foreign securities, including foreign securities represented by American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs") and foreign securities trading on US stock exchanges involve risks relating to political, social and economic developments abroad, as well as risk resulting from the differences between the regulations to which

U.S. and foreign issuer markets are subject. These risks include, without limitation: different accounting and reporting practices, less information available to the public, less (or different) regulations of securities markets, more complex business negotiations, less liquidity, more fluctuations in prices, delays in settling foreign securities transactions, higher costs for holding shares (custodial fees), higher transactions costs, vulnerability to seizure and taxes, political or financial stability and smaller markets, and different market trading days.

- **Currency Risk:** A portfolio which invests in securities denominated in foreign currencies, is subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for reasons such as changes in interest rates, government intervention or political developments. As a result, a portfolio's investment in foreign currency denominated securities may reduce the returns of the portfolio.
- **Short Sales Risk:** A short sale may be affected by selling a security that the portfolio does not own. In order to deliver the security to the purchaser, a portfolio borrows the security, typically from a broker-dealer or an institutional investor. The portfolio later closes out the position by returning the security to the lender. If the price of the security sold short increases, the portfolio would incur a loss; conversely, if the price declines, the portfolio will realize a gain. Although the gain is limited by the price at which the security was sold short, the loss is potentially unlimited. A portfolio's use of short sales in an attempt to improve performance or to reduce overall portfolio risk may not be successful and may result in greater losses or lower positive returns than if a portfolio held only long positions. A portfolio may be unable to close out a short position at an acceptable price, and may have to sell related long positions at disadvantageous times to produce cash to unwind a short position. Short selling involves higher transaction costs than typical long-only investing.

## **Risk Mitigation**

We generally monitor portfolio risk through performance attribution software, as well as portfolio risk management software. These systems assist our

review of the risks embedded in our accounts as they relate to position size, sector/industry weightings (both absolute and benchmark relative), market capitalization, and fundamental (e.g., valuation, momentum) and technical factors (e.g., beta, relative strength). We monitor such risk on a regular basis in order to understand how our accounts are positioned, as well as explain relative performance differences versus the benchmark.

The portfolio managers and Systematic's Compliance department review account activity to determine that internal and client guidelines are followed. Client guidelines are typically received before an account is traded and are reviewed by the portfolio manager and Compliance for any inconsistencies with our strategy and for any clarification that may be needed. If a client wishes to establish reasonable restrictions for its account, Systematic typically employs a process to facilitate compliance whereby these restrictions are entered into a third-party pre- and post-trade portfolio compliance monitoring software solution. This system interfaces with the portfolio accounting and trade order management systems, thus supporting client guideline adherence and notification of potential breaches. This system combines pre-trade compliance with post-trade monitoring capabilities to facilitate pre-trade compliance with both static guidelines (restrictions that apply directly to specific stocks) and dynamic guidelines such as those that restrict investments relative to an industry, sector or benchmark weighting. Additionally, portfolio managers review the accounts on a regular basis to determine that they are being managed consistent with the accounts' models.

Our Value Equity Style and Free Cash Flow Style investment strategies measure and manage company specific risk, and equity market risk in general through the fundamental (bottom-up stock specific) research process. Our International Equity investment strategy utilizes a qualitative research process, as well as quantitative analysis to manage these risks. The primary goal of both the fundamental and qualitative research efforts is not only to identify securities that we believe have upside potential, but also to reduce the risk of loss by purchasing companies with good cash flows and limited debt at a valuation discount. This focus on minimizing the risk of loss is also significant because we generally employ a fully invested strategy, with cash typically less than 10% of an account. As a result, cash is not a primary risk management tool.

All of our investment strategies also manage company specific risk through diversification of the

portfolio. Accounts are prudently diversified. With the exception of focused portfolios, individual security positions are generally limited to a maximum of 5% of portfolio assets at market value. The actual stock weighting for each security is determined by the portfolio manager and based on a variety of factors such as: liquidity, market, capitalization, sector, alternative options, and the confidence level and conviction of the portfolio manager.

Portfolio concentration risk is further addressed through diversification by sector and industry. These exposures are regularly monitored through a variety of systems. As part of our risk controls, in our Value Equity investment offerings, we generally limit sector weightings to a maximum of 30% and generally remain within +/- 5% of the benchmark's sector weight; therefore, it is conceivable that a sector may not be represented. The actual weighting for each sector is determined by the portfolio manager and based on a variety of factors such as: relative weight of the sector in the overall benchmark; market, sector, and industry trends; and the confidence level and conviction of the portfolio manager. Volatility of returns is also typically measured and compared to the relevant benchmark to determine that it is reasonable in light of the returns produced relative to the benchmark.

## **Item 9 – Disciplinary Information**

There are no applicable legal or disciplinary events relating to Systematic.

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

### **Affiliations**

As noted previously, AMG, a publicly traded asset management company (NYSE:AMG) with equity investments in a number of boutique investment management firms, holds an equity interest in Systematic. AMG also holds equity interests in certain other investment advisers (“AMG Affiliates”). Each of the AMG Affiliates, including Systematic, is operated autonomously and independently. Except as described in this Brochure, Systematic does not have any business dealings with these AMG Affiliates and does not conduct any joint operations with them. Moreover, the AMG Affiliates do not formulate advice for Systematic's clients. As

such, AMG's ownership interest in Systematic does not, in Systematic's view, present potential conflict of interest for Systematic with respect to our clients. More information regarding AMG, including its public filings and a list of all AMG Affiliates, is available at [www.amg.com](http://www.amg.com).

Systematic has servicing agreements with Managers Investment Group (“MIG”), an AMG Affiliate, under which MIG provides non-discretionary back office support, administrative assistance, and marketing services to support Systematic's provision of advisory services to or through various unaffiliated third-party investment programs, including wrap programs, dual contract programs, and non-discretionary (model based) programs sponsored by unaffiliated broker/dealers, banks, and other financial intermediaries. Systematic pays MIG a fee for the services provided by MIG under these servicing arrangements. MIG is an affiliate of Systematic by virtue of AMG's majority equity ownership in each of Systematic and MIG.

Systematic has a marketing agreement with MIG under which MIG markets Systematic's investment management services to unaffiliated third-party intermediaries that sponsor subadvised mutual funds and/or other platforms, such as defined contribution retirement plan platforms. Systematic pays MIG a fee for these services.

Systematic formerly had a client servicing and marketing agreement with another AMG Affiliate. Although this agreement has terminated, the AMG Affiliate continues to pay certain fees to Systematic for services provided previously.

Systematic has a subadvisory agreement with MIG with respect to various multi-style or multi-attribute programs (“MSPs”) for which MIG serves as discretionary investment adviser. These MSP programs are sponsored by unaffiliated third-party financial intermediaries. Under the subadvisory agreement, Systematic serves as a non-discretionary subadviser to MIG for the MSP programs, and receives a subadvisory fee from MIG for these services.

Systematic has mutual fund subadvisory agreements with MIG under which Systematic serves as subadviser to mutual funds in the Managers Funds family of mutual funds (collectively the “Funds”), for which MIG is the adviser. As described in each Fund's prospectus, the Funds pay MIG advisory fees, and MIG pays Systematic subadvisory fees with respect to the Funds we manage.

Additionally, Systematic is party to client service/marketing agreements with subsidiaries of AMG under which the AMG subsidiaries market Systematic's investment services to clients and provide client services to the Firm's clients in various foreign jurisdictions. These AMG subsidiaries are not broker-dealers, investment advisers, or any of the other financial institutions described in Item 7.A. of Form ADV Part 1A. Depending on the foreign jurisdiction, the AMG subsidiaries may be registered or exempt from registration, as appropriate, with the relevant foreign financial regulatory authorities. Systematic pays the AMG subsidiaries a fee for these services.

### **Other Financial Activities**

Systematic is not registered, nor has an application pending to register, as a broker/dealer, futures commission merchant, commodity pool operator, or commodity trading advisor.

Certain Systematic employees, including, without limitation, management persons, are registered representatives of Managers Distributors, Inc. ("MDI"), a limited purpose broker/dealer that is a wholly owned subsidiary of MIG and that is the underwriter of the Managers Funds.

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

Systematic has established various internal controls and procedures designed to address potential conflicts of interest arising between client accounts and Systematic and its personnel.

#### **Code of Ethics**

As a registered investment adviser, Systematic has a fiduciary duty to its clients, and accordingly has adopted a Code of Ethics (the "Code") that applies to all employees. The Code describes the standard of conduct Systematic requires of all employees and sets forth restrictions on certain activities, including personal trading in accounts owned, managed, or beneficially owned by the employees. The Code addresses general principles regarding ethics, compliance with federal securities laws, personal trading, gifts and entertainment, treatment of confidential information, the prohibition against the use of inside information, and other situations where

there is a possibility for conflicts of interest. By setting forth the regulatory and ethical standards to which Systematic's employees must adhere, the Code supports our efforts to promote a high level of professional ethical conduct in furtherance of our fiduciary duty to our clients.

In addition, while Systematic personnel do not actively seek material, non-public information, they may inadvertently receive it. The Firm's Code of Ethics addresses related policies and procedures to be followed by employees to assist them in understanding, among other things, the issues surrounding the receipt of material, non-public information and actions to be taken to prevent unlawful trading or the appearance of unlawful trading.

#### **Personal Trading**

Among other things, the Code limits and monitors the personal trading activity of our employees, including members of our employees' households. These limitations seek to further Systematic's efforts to prevent employees from personally benefiting from Systematic's investment decisions for its clients and/or any short-term market effects of Systematic's recommendations to clients. Specifically, the Code prohibits the purchase of common and preferred stock, as well as the purchase of initial public offerings ("IPOs") (including those of convertible securities). The Code also requires employees and certain members of their households to obtain pre-approval of certain transactions, personal securities reporting, initial and annual holdings reporting, and reporting of code violations promptly to the Chief Compliance Officer. In addition, the Code prohibits such persons from trading in securities during specific periods of time when they are on a list of those being considered for purchase or sale by the firm for our clients' accounts (i.e., "blackout periods"). Limitations also exist for such persons on the participation in private placements. These restrictions and requirements of the Code apply to all accounts over which employees have investment discretion, or in which they have a direct or indirect beneficial ownership interest.

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

Systematic generally does not purchase or sell securities for its own account. However, Systematic serves as subadviser to mutual funds which are available to employees for their personal investment, including, in certain cases, through the Systematic



401(k) investment plan. These funds may hold, purchase, or sell the same securities in which clients have interests. Systematic may also recommend these funds to clients. We may have an incentive to favor accounts in which our employees invest or the Firm has a financial interest with respect to trading opportunities, trade allocation, and allocation of investment opportunities. As such, orders placed for the mutual funds are generally treated as we would treat other client accounts and orders are generally processed in a similar manner and at times that other client transactions would also be processed. In furtherance of our efforts to facilitate fair and equitable allocations over time across accounts, Systematic has implemented a series of controls, which are described in the “Side-by-Side Management” subsection of “Item 6 – Performance-Based Fees and Side-by-Side Management,” as well as the “Trade Aggregation” sub-section of “Item 12 – Brokerage Practices of this Brochure.”

In addition, due to the nature of our clientele, Systematic may, from time to time, trade in securities issued by our clients. In all such instances, Systematic will do so in what we believe to be in the best interest of its clients who are trading in such securities. Systematic will not, under any circumstances, consider a security issuer’s status as a client of the firm when determining to trade in that issuer’s security on behalf of other client accounts.

### **Insider Trading/Material Non-Public Information**

In addition to the Insider Trading Policy imposed by Systematic’s Code of Ethics, all employees of Systematic are also subject to the Affiliated Managers Group, Inc. Insider Trading Policy and Procedures (the “AMG Insider Trading Policy”). The AMG Insider Trading Policy broadly prohibits the use of material, non-public information, and also imposes restrictions on the trading of AMG’s stock. In addition, Systematic’s Code includes policies and procedures prohibiting the use of material non-public information that are designed to prevent insider trading by an officer or employee of Systematic.

In accordance with these policies, to prevent trading of public securities based on material, non-public information, Systematic may maintain a “restricted list” that identifies any securities that cannot be purchased for accounts because material, non-public information may have been received by an employee of the firm. The issuers named on this restricted list are typically coded as “prohibited” in Systematic’s trading and portfolio compliance system, thus

blocking Systematic from trading in these securities without the consent of Systematic’s Chief Compliance Officer.

### **Gifts and Business Entertainment**

Systematic has policies and procedures regarding giving or receiving gifts and business entertainment between the firm’s employees and certain third parties (e.g., vendors, broker/dealers, consultants, etc.) to help mitigate the potential for conflicts of interest surrounding these practices. In general, Systematic limits the amount of gifts and business entertainment that may be provided by employees to these parties, and requires the reporting and pre-approval of certain items by our Compliance Department. Systematic monitors for potential conflicts of interest with respect to individual instances of gifts or entertainment, as well as patterns over time, to prevent the interests of Systematic and its employees from being placed ahead of the interests of our clients.

As noted in “Item 10 - Other Financial Industry Activities and Affiliations” of this Brochure, certain employees of Systematic are also registered representatives of Managers Distributors, Inc. (“MDI”) and are subject to additional procedures and restrictions with respect to gifts and business entertainment activities.

### **Charitable Contributions**

Systematic may make charitable contributions or sponsor non-marketing events, including charities or events connected with current or former Systematic clients or their employees. Most of these activities are non-profit or charitable organizations and are made in response to requests from clients or their personnel. Systematic has adopted policies and procedures that include management approval of such contributions and sponsorships. Policies and procedures relating to these activities are administered by Systematic’s Compliance department in order to mitigate the possibility of actual or potential conflicts of interest.

### **Political Contributions**

Systematic prohibits its employees from making political contributions on behalf of the Firm or from being reimbursed for personal political contributions, and from making political contributions for the purpose of securing or retaining business. Certain state and federal laws prohibit Systematic from acting as an investment adviser to specific government



entity clients for a period of time following an employee's qualifying political contribution. To ensure compliance with these laws and minimize any potential conflicts of interest, Systematic maintains policies and procedures that set forth specific limitations as to the amounts of contributions, as well as requires preclearance of all political contributions by and/or campaign related volunteer activities of employees.

## **Distribution of Code**

All of our employees are provided with a copy of our Code at the time of hire and annually thereafter, and each employee must affirm that they have received a copy of the Code, and that they have read and understand its provisions. Additionally, we conduct periodic compliance training that addresses the requirements of the Code and the other policies described in this Item. A copy of Systematic's Code is also available to clients or prospective clients upon request, and may be obtained by contacting Systematic using the contact information on the cover page of this Brochure.

## **Item 12 – Brokerage Practices**

Generally, Systematic is retained on a discretionary basis and is authorized to determine and direct execution of portfolio transactions within the client's specified investment strategy. Some clients limit Systematic's authority in terms of Systematic's ability to execute trades or select broker/dealers in favor of their own trading preferences or brokerage arrangements. Systematic has a fiduciary duty to seek best execution, and to ensure that trades are allocated fairly and equitably among clients over time.

### **Brokerage Relationships**

Systematic's relationships with broker/dealers, particularly those affiliated with large financial services organizations, are complex. Systematic uses various broker/dealers to execute trades on behalf of clients, but Systematic may also have many other relationships with such firms. For example:

- Systematic may invest client assets in securities issued by broker/dealers or their affiliates;
- Systematic may provide investment management services to certain broker/dealers or their affiliates;

- Certain broker/dealers may provide both internally-generated and third-party research to Systematic, as part of a bundled service; and
- Certain brokers/dealers may refer clients to Systematic.

Notwithstanding such relationships or business dealings with these broker/dealers, Systematic has a fiduciary duty to its clients to seek best execution when trading with these firms, and has implemented policies and procedures to monitor its efforts in this regard as described further below.

### **Best Execution – Selection Factors for Broker/Dealers**

As noted above, Systematic has a duty to seek best execution of transactions for client accounts. "Best execution" is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. In seeking best execution, Systematic looks for the most favorable combination of transaction price, quality of execution (such as the speed of execution and the likelihood the trade will be executed) and other valuable services that an executing broker/dealer may provide.

Clients typically grant Systematic the authority to select the broker/dealer to be used for the purchase or

sale of securities. Systematic, in seeking best execution, will make this selection based on a number of factors, which may include, but are not limited to, the following: the broker/dealer's financial soundness; the broker/dealer's ability to effectively and efficiently execute, report, clear, and settle the order; the broker/dealer's ability to commit capital; the broker/dealer's ability to timely and accurately communicate with Systematic's trading desk and operations team; the broker/dealer's research services provided in connection with soft dollar arrangements (explained in more detail in the "Soft Dollars" sub-section of this Item 12 below); the broker/dealer's commission rates; and similar factors. Systematic does not consider any client referrals from a broker/dealer when determining best execution, or when placing client trades.

Recognizing the value of these factors, Systematic may select a broker/dealer that charges a commission in excess of that which another broker/dealer might have charged for effecting the same transaction. Systematic is not obligated to choose the broker/dealer offering the lowest available commission rate if, in Systematic's reasonable judgment, the total cost or proceeds from the

transaction may be less favorable than what may be obtained elsewhere or if a higher commission is justified by the service and/or research provided by another broker/dealer.

When selecting trading venues on which to execute an order, Systematic generally considers whether it has viable options among trading venues, such as different markets or trading systems. If options exist, Systematic may consider executing part or all of the trade order using an Alternative Trading System (“ATS”). These systems may reduce the role of market makers and can assist buyers and sellers in dealing directly with each other, thereby increasing market anonymity. ATSs may also offer limited market impact, lower commissions, and protection of proprietary information with respect to relatively liquid securities. At times, however, these systems may also present certain limitations. In certain trading circumstances, given time constraints, priority trading needs, lack of liquidity, or other conditions, use of such ATSs may be impractical. Systematic is not required to use alternative trading systems in any particular circumstances.

Systematic has implemented a series of internal controls and procedures to address the conflicts of interest associated with its brokerage practices. To determine that it is receiving best execution for its transactions over time, Systematic will obtain information as to the general level of commission rates being charged by the brokerage community, from time to time, and will periodically evaluate the overall reasonableness of brokerage commissions paid on client transactions by reference to such data. To the extent Systematic has been paying higher commission rates for its transactions, Systematic will determine if the quality of execution and the services provided by the broker/dealer justify these higher commissions. Systematic’s Commission Review Committee generally meets monthly to review brokers’ servicing ability, operational support, execution, quality of research ideas, and commission rates. Representatives of Compliance, Trading, and the Investment team are included in this meeting. Issues may be brought to the attention of the Management Committee and the Chief Compliance Officer to facilitate resolution. On typically a quarterly basis, Systematic reviews trade cost analysis reports it receives from a third-party. Systematic may cease to do business with certain exchange members, brokers, or dealers whose performance may not have been competitive or may demand that such persons improve their performance before receiving any further orders.

Systematic also regularly monitors changes in market conditions and the availability of new or alternative methods for executing transactions.

## **Directed Brokerage**

Systematic does not direct or require its clients to use a specified broker/dealer for portfolio transactions in their accounts.

In some cases, clients have directed Systematic to use specified broker/dealers for portfolio transactions in their accounts. In these cases, Systematic is not obligated to, and will generally not, solicit competitive bids for each transaction or seek the lowest commission rates for the client, as the commission rates have typically been pre-negotiated between the client and the designated broker/dealer (“directed broker”) and Systematic is unable to supersede the terms of that agreement. Since Systematic has not negotiated the commission rate and may not be able to obtain volume discounts, the commission rate charged by the directed broker may be higher than what Systematic could receive from another broker/dealer. In addition, the client may be unable to obtain the most favorable price on transactions executed by Systematic as a result of Systematic’s inability to aggregate/bunch the trades from this account with other client trades. If a client were to direct payment of an excessive amount of commissions, the client’s executions may not be accomplished as rapidly. Furthermore, the client may not be able to participate in the allocation of a security of limited availability (such as an initial public offering). In some situations, Systematic may not execute a client’s securities transactions with its directed broker until non-directed brokerage orders are completed. Accordingly, clients who direct commissions to specified broker/dealers may not generate returns equal to clients that do not direct commissions. Due to these circumstances, there may be a disparity in commission rates charged to a client who directs Systematic to use a particular broker and performance and other differences from other similarly managed accounts. Clients who direct brokerage should understand that similar brokerage services may be obtained from other broker/dealers at lower costs and possibly with more favorable execution.

Systematic reserves the right to reject or limit client requests for directed brokerage, and clients may be charged a premium for such arrangements.

Under circumstances in which the broker is designated by the client, execution costs for those

transactions are not charged to clients on a pro rata basis; rather, each client is charged a commission based on the rates agreed to between the client and the broker. If there are orders entered on Systematic's trading system for both accounts with directed brokerage (e.g., wrap fee accounts and model-based accounts) and accounts without directed brokerage, Systematic will generally execute the non-directed orders first. If orders for directed accounts are executed following the execution of orders for non-directed accounts, the directed accounts may receive a less favorable price than non-directed accounts. Directed accounts generally are then traded on a random, rotating basis.

### **Step-Outs**

Step-out trades are transactions which are placed at one broker/dealer and then "given up" or "stepped out" by that broker/dealer to another broker/dealer for credit. As a general rule, Systematic does not request that broker/dealers "step-out" all or part of the trade to another broker/dealer for the purpose of securing research or other non-brokerage services.

Systematic may, however, direct the executing broker to assign all or a portion of a trade to another broker for clearance and settlement in order to accommodate client directed brokerage arrangements. In circumstances where Systematic has followed the client's instructions to direct brokerage, there can be no assurance that Systematic will be able to assign the trades to the directed broker, or, if it is able to assign the trades, that it will be able to obtain more favorable execution than if it had not assigned the trades.

### **Cross Trades**

Systematic does not engage in cross trades in its client accounts.

### **Liquidity Rebates**

In selecting broker/dealers to execute transactions for the accounts we manage, Systematic does not consider any "liquidity rebates" that may be available to those broker/dealers. Broker/dealers may earn "liquidity rebates" (i.e., a certain cash rebate) when placing orders in certain market centers while trading on behalf of Systematic. However, Systematic chooses broker/dealers based on our policy of seeking best execution, which is determined by several quantitative and qualitative factors. It is against Systematic's policy to take into consideration a broker/dealer's potential to earn liquidity rebates

when deciding whether to choose a particular full service broker/dealer.

### **Soft Dollars**

Systematic may direct certain transactions for execution to certain broker/dealers in recognition of brokerage and research services provided by those broker/dealers and/or other third-party providers. The practice of obtaining research in this manner is referred to as using "soft dollars." Soft dollar transactions generally cause clients to pay a commission rate higher than would be charged for execution only. The products and services received through soft dollar transactions may include investment research (either directly or through publications or reports) as to the value of securities, the advisability of investing in, purchasing, or selling securities, the availability of securities or purchasers or sellers of securities, presentation of special situations and trading opportunities, advice concerning trading strategy, and analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy, and the performance of specific strategies.

In the allocation of brokerage business, Systematic may give preference to those broker/dealers that provide research products and services, either directly or indirectly, so long as Systematic believes that the selection of a particular broker/dealer is consistent with Systematic's duty to seek best execution. To the extent that Systematic is able to obtain such products and services through the use of clients' commission dollars, it reduces the need to produce the same research internally or through outside providers for hard dollars and thus provides an economic benefit to Systematic and its clients. As an example, Systematic has received research services relating to data used by the investment team for attribution analysis and risk control purposes; software that has substantial data, alpha and risk models and the ability to track news events on portfolios, and industry-specific information and website access, which Systematic has found useful in its research process. Systematic may have an incentive to select a broker/dealer in order to receive such products and services whether or not the client receives best execution. On an ongoing basis, Systematic monitors the research and brokerage services received to ensure that the services received are reasonable in relation to the brokerage allocated.

Products and services which provide lawful and appropriate assistance to Systematic's investment decision-making process may be paid for with

commissions generated by client accounts to the extent such products and services were used in that process. It is possible that Systematic could also receive services which, based on their use, are only partially paid for through soft dollars. Any such service is considered “mixed-use” because it is used by Systematic for both research or brokerage and non-research, non-brokerage purposes. In each such case, Systematic makes a good faith determination of which portion of the service should be paid for with soft dollars and which portion should be paid for with hard dollars. Systematic allocates the cost of the products on a basis which it deemed reasonable according to the various uses of the product. Only that portion of the cost of the product allocable to research services would be paid with the brokerage commissions generated by fiduciary accounts and the non-research portion will be paid in cash by Systematic. Systematic retains documentation of the soft to hard dollar allocation and periodically reviews this allocation.

The research products/services provided by broker/dealers through soft dollar arrangements benefit Systematic’s investment process for client accounts and may be used in formulating investment advice for any and all clients of Systematic, including accounts other than those that paid commissions to the broker/dealers on a particular transaction. Nonetheless, not all research generated by a particular client’s trade will benefit that particular client’s account. In some instances, the other accounts benefited may include accounts for which the accounts’ owners have directed their portion of brokerage commissions to go to particular broker/dealers other than those that provided the research products/services. However, research services obtained through soft dollar transactions may be used in advising all accounts, and not all such services would necessarily be used by Systematic in connection with the specific account that paid commissions to the broker/dealer providing such services.

Systematic may also receive unsolicited proprietary research from broker/dealers through which it trades. Proprietary research of this nature is generally part of a “bundle” of brokerage and research and is not separately priced. Any research received is used to service all clients to which it is applicable. Systematic executes trade orders with broker/dealers on the basis of best execution as described above, without consideration of any unsolicited research services that it may receive. Systematic makes no attempts to link the acquisition of unsolicited research with any particular client transactions.

Systematic periodically reviews the past performance of broker/dealers with whom it has been placing orders in light of the factors discussed above. For a discussion of the evaluation of brokers, please see the “Best Execution” sub-section above.

From time to time, certain clients may request that Systematic not generate soft dollar credits on trades executed for their accounts. While Systematic may accommodate such requests in its discretion, trades for these clients generally do not experience lower transaction costs. In addition, the trading process for these clients may be adversely affected in other ways, including that the client may not participate in aggregated orders with clients that have not made such a request, therefore preventing the client from receiving the price and execution benefits of the aggregated order. In addition, and as with other directed or customized brokerage arrangements, the positions of these accounts in trade ordering and trade rotation may be impacted. Please see the “Directed Brokerage” sub-section above for more information on how customized brokerage arrangements may adversely impact trading results. Systematic reserves the right to reject or limit client requests of this type, and clients may be charged a premium for such arrangements.

As noted previously, Systematic maintains a series of internal controls and procedures relating to its brokerage practices, including its use of soft dollars. These controls and procedures are designed to mitigate the potential conflicts of interest described in this Item. Please see the “Best Execution – Selection Factors for Broker/Dealers” sub-section above for a discussion of these controls. In addition, Systematic utilizes a form to facilitate soft dollar approval, and all soft dollar services are ultimately approved by the Commission Review Committee and the Chief Compliance Officer. All payments for soft dollar services are approved by Compliance, in conjunction with the Head Trader.

### **Commission Sharing Arrangements**

In addition to traditional soft dollar arrangements, Systematic may use commissions to obtain products or services provided by broker/dealers, but produced by third parties, through commission sharing arrangements (“CSAs”). In CSAs, Systematic enters into agreements with broker/dealers so that certain commissions from transactions placed by Systematic at those broker/dealers are pooled by the broker/dealers, in order for Systematic to direct the compensation to one or more third-party investment research providers (which research providers may or

may not be broker/dealers). Through these arrangements, products and services that provide lawful and appropriate assistance to Systematic's investment decision-making process may be paid for with commissions generated by client accounts. Systematic allocates the cost of such products on a basis that it deems reasonable over time according to the various uses of the product, and maintains records to document this allocation process.

Through these pooled CSA structures, Systematic could conclude that if a broker dealer does not meet its requirements in terms of execution capabilities, yet provides valuable research, it could terminate any execution relationship and pay for the research through another broker/dealer. The CSAs enable Systematic to work more closely with certain key broker/dealers, and limit the broker/dealers with whom it trades, while still maintaining research relationships with broker/dealers that provide Systematic with research and research services.

Research received through CSAs may include proprietary research generated by the broker/dealers that execute the transactions or research generated by third parties and provided by such broker/dealers. The CSAs may be structured as traditional soft dollar arrangements, obligating the broker/dealer to pay for specific research product, or they may be structured to allow Systematic to designate broker/dealer payments to specific research providers based on existing commission credits with the executing broker/dealers. The latter arrangements enable Systematic to separate trade execution from research.

As noted above, Systematic maintains a series of internal controls and procedures relating to its brokerage practices, including its use of CSAs. These controls and procedures are designed to mitigate the potential conflicts of interest described in this Item. Please see the "Best Execution – Selection Factors for Broker/Dealers" and "Soft Dollars" subsections above for a discussion of these controls.

## **Trade Allocation and Aggregation**

Systematic's trade allocation decisions are made among client accounts in an effort to ensure fair and equitable treatment of client accounts over time. Investment decisions are generally applied to all accounts utilizing that particular strategy, taking into consideration client restrictions, instructions and individual needs. When two or more accounts are simultaneously engaged in the purchase or sale of the same security, Systematic may, but is not obligated to, combine and aggregate the transactions to form a

"bunched trade" or "block trade" in order to seek the most favorable execution and lower brokerage commissions in such manner as Systematic deems equitable and fair to the clients. As a general rule, these accounts will receive the average price of the transactions in that security for the day. Trades in the same security for different accounts will be accumulated for a reasonable period of time to allow for aggregation, unless a particular account's interest would be unduly prejudiced. Systematic may, but is not required to, aggregate orders into block trades where Systematic believes this is to be appropriate, in the best interests of the client accounts, and consistent with applicable legal requirements. Transactions executed in a block will typically be allocated to the participating client accounts before the close of the business day. Systematic, when rebalancing individual accounts, may or may not have an opportunity to aggregate or "bunch" trades; thus there may be disparity in price or commissions among clients.

Since more than one account's orders are included in a block trade, Systematic has adopted a policy of using a "pro rata allocation" to allocate the trade among each account whose order makes up part of the block. Under a pro rata allocation, as securities are being purchased or sold as part of the block trade, the securities are being allocated to (or away from, in the case of a sale) accounts in the proportion by which each account's order size (as determined by the portfolio manager at the time of order entry) makes up a percentage of the entire block. In cases where Systematic is unable to fulfill a block trade the same day (i.e., purchase or sell all securities within the block trade), those securities that have been purchased or sold by the end of the day will generally be allocated pursuant to Systematic's pro rata allocation methodology.

Although Systematic generally seeks to allocate investment opportunities as fairly and equitably as possible over the long term, Systematic cannot assure the equal participation of every client in every investment opportunity or every transaction. Systematic may determine that a limited supply or demand for a particular opportunity or investment or other factors noted above may preclude the participation of some clients in a particular investment opportunity or trade.

Systematic believes that, in most instances, a pro rata allocation of block trades will assure fairness. However, we also recognize that no rigid formula will necessarily lead to a fair and reasonable result, and that a degree of flexibility to adjust the formula

to accommodate specific circumstances is necessary when determining how to allocate block trades. Therefore, under certain circumstances, allocation of block trades on a basis other than strictly pro rata may occur if we believe that such allocation is fair and reasonable. Nevertheless, all securities purchased or sold through a block trade, including expenses incurred in the transaction, will be allocated on a fair and equitable basis over time, to the extent practicable, without favoring any account or type of account or client (including any proprietary or affiliated account). On a periodic basis, our portfolio managers and Compliance department personnel monitor the proportional amounts allocated to all portfolios to determine whether such allocations are fair and equitable over time.

The ability of a client account to participate with other accounts in bunched/block transactions may produce better execution for the individual client account. However, in some instances, a client may have designated a specific broker/dealer to whom the client's trades must be directed. (See the "Directed Brokerage" sub-section above.) This designated broker/dealer may not (or, in some cases, will not) execute bunched or block trades, and even if it does, Systematic may not be able to direct the entire block trade to this designated broker/dealer because it would conflict with Systematic's duty to obtain best execution. In such cases, since Systematic will place the client's trade with the designated broker/dealer as instructed rather than include the client's order in the block trade, the client may not necessarily obtain the better price and/or level of execution that those clients who participate in the block may receive.

## **Initial Public Offerings**

An initial public offering is a company's first offer of stock for sale to the public. Depending on the interest in this initial offering, Systematic's access to these newly offered shares may be limited in amount at the time of the initial offering. In addition, client participation in any initial public offerings and other securities with limited availability (collectively, "IPOs") may also be limited because: not all clients are eligible to participate in every offering; the number of shares of each offering allotted to Systematic may be too small to permit meaningful participation by all clients that may be eligible to participate; and the number and nature of offerings generally may be dependent upon market or economic factors beyond the Firm's control.

IPOs typically do not qualify for the traditional value style portfolios managed by Systematic due to a lack

of earnings and/or cash flows associated with new issuance. In the event that Systematic participates in any IPOs, Systematic allocates IPOs among accounts in a fair and equitable manner over time, taking into consideration factors such as account type, client account objectives and preference, investment restrictions, account sizes, cash availability, and current specific needs. Systematic generally seeks to ensure that over the long term, each eligible client with the same or similar investment objectives will receive an opportunity to participate in such offerings, subject to limitations noted above. Secondary offerings are generally allocated to eligible accounts based on product style and account size on a pro rata basis. Systematic's wrap accounts and non-discretionary programs (or directed accounts) are generally not eligible for IPOs.

Where the actual allocation of an IPO to Systematic for its accounts is significantly lower than that originally requested by Systematic, the original allocation proportions that we determined for our accounts may result in allocations that are not meaningful to certain accounts. In those situations, Systematic may allocate the securities received to significantly fewer accounts than originally intended. Those accounts chosen to receive the smaller allocations are selected based on a combination of factors, such as size, cash position, sector allocations, number of positions, diversification among similar companies, and minimization of custodian transaction costs to the client. While Systematic's intention is to allocate similar proportional amounts of IPOs to all eligible accounts over time, using this methodology, some accounts may not receive small allocations. Portfolio managers and compliance personnel periodically monitor the allocations to client accounts and the dispersion of performance for accounts in an effort to ensure that all accounts are treated fairly and equitably over time. Please see "Item 6 – Performance-Based Fees and Side-by-Side Management" for a discussion of allocation controls.

## **Prime Brokers**

Systematic utilizes the services of a prime broker for its Large Cap Value 130/30 strategy (described above in "Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss"), through which its trade clearance and financing is coordinated. This prime broker may also provide Systematic with research, reporting, and analysis tools as part of its services.

## **Trade Errors and Trade Error Accounts**

Systematic has established an error correction policy which provides that the resolution of all errors be made consistent with Systematic's fiduciary duties. In the event of a trade error attributable to Systematic, Systematic's general policy is to place the client in the position it would have been in absent the error unless otherwise directed by the client.

Systematic may maintain a trade error account with certain broker/dealers. These accounts generally allow for netting of gains and losses relating to trade errors occurring with respect to the Firm's clients. Any net losses residing in these accounts typically require reimbursement from Systematic. Any net gains will typically accumulate to be used to offset future trade error losses (unless the brokerage program specifies that trading gains are required to be allocated to the client's account).

## **Item 13 – Review of Accounts**

Systematic's portfolio managers generally have primary responsibility for the investment advice and supervision given to each client account managed by that portfolio manager, subject to certain limitations regarding wrap fee and non-discretionary model-based program accounts, as described in "Item 4 – Advisory Business." Portfolio managers receive regularly updated information about security positions in account portfolios, and accordingly review the assets of each account for portfolio strategy and asset allocation purposes.

The portfolio managers and Systematic's Compliance department review portfolio activity to ensure internal and client-directed guidelines and restrictions are followed. Specifically, Systematic uses an automated portfolio compliance monitoring system with both pre-trade and post-trade monitoring capabilities to determine that accounts are being managed in accordance with guidelines. In addition, the Compliance staff uses manual monitoring procedures to confirm that accounts are managed in accordance with guidelines. Additionally, as noted above, the portfolio managers review their accounts on a regular basis to ensure that they are being managed consistent with the portfolio model.

Systematic also performs reconciliations of its records of the securities and cash within its clients' accounts against the records of the custodians who actually hold the securities and cash. These

reconciliations are generally performed by Systematic's portfolio administrators. Typically, at least monthly, portfolio administrators reconcile the cash balance, security holdings, and market value of all client accounts in an effort to ensure that Systematic's client reporting is accurate. For daily-valued accounts (including mutual funds for which Systematic serves as a subadviser), Systematic typically reconciles cash positions on a daily basis. Accounts are generally reconciled on either a trade date or settlement date basis. To the extent any discrepancies are identified through the performance of these reconciliations, our operations personnel will typically work with both our internal team and the client's custodian to resolve any such discrepancies. As the custodian for the assets in the account, the statements and records of the custodian are the official books and records for the account.

Systematic encourages all clients to carefully review their own accounts from time to time and to notify the Firm promptly if they have any questions.

## **Reporting**

Clients generally receive monthly or quarterly account reports from independent qualified custodians, unless they request these reports more frequently. The reports typically include:

1. Listing of individual holdings, including number of shares and current market value;
2. Quarterly, year-to-date, and/or since-inception time-weighted rates of return;
3. Historical statement of changes describing clients' original capital and additions of capital, together with income earned and a combination of realized and unrealized appreciation or depreciation; and
4. Purchase and sale transactions occurring during the quarter.

In addition, clients with accounts in wrap fee programs typically receive regular reporting from the firm sponsoring the wrap program.

Our institutional clients also generally receive monthly or quarterly reports from Systematic, and some of our individual clients receive reports from Systematic as requested from time to time. These reports are primarily standard, although some are customized. The reports normally include actual performance against objectives, comments on markets and strategy, a portfolio appraisal of security and cash positions, and portfolio transaction summaries. These reports are typically supplemented

by trade confirmations and the other reports on clients' portfolio holdings and transactions provided (on typically a quarterly basis) to clients from their respective custodians and/or broker/dealers, as described above. Please see "Item 15 - Custody" for more information on these reports.

As noted in "Item 15 - Custody," we encourage our clients who receive reports from Systematic to compare those reports against the reports provided to them by the qualified custodians who hold the assets of their accounts, and to report any questions, concerns, or discrepancies to both Systematic and the qualified custodian promptly. The custodian statements reflect the official books and records for the accounts we manage, rather than Systematic's statements.

## **Item 14 – Client Referrals and other Compensation**

### **Relationships with Consultants**

Many of our clients and prospective clients retain investment consultants to advise them on the selection and review of investment managers. Systematic may have certain accounts that were introduced to Systematic through consultants that may also be broker/dealers, or may have relationships with a particular broker/dealer. These consultants or their affiliates may, in the ordinary course of their investment consulting business, recommend Systematic's investment advisory services, or otherwise place Systematic into searches or other selection processes for a particular client. In addition, Systematic may, from time to time, buy from such outside consultants certain services or products used in Systematic's investment advisory business (such as software) or pay registration or other fees in connection with consultant-sponsored industry forums or conferences.

Systematic has extensive dealings with investment consultants, both in the consultants' role as adviser for their clients and through independent business relationships. Specifically, we provide consultants with information on portfolios we manage for our mutual clients, pursuant to our clients' directions. Systematic also provides information on our investment styles to consultants, who use that information in connection with searches they conduct for their clients. Systematic may also respond to

"Requests for Proposals" from prospective clients in connection with those searches.

Clients obtained through these consultants may instruct Systematic to direct some or all of their brokerage transactions to these consultants, which may also be a broker/dealer, or to the particular broker/dealers with whom they have relationships. In the alternative, Systematic may simply choose to allocate brokerage to such consultants or broker/dealers.

Other interactions that Systematic may have with consultants include, but are not limited to, the following:

- Systematic may invite consultants to events or other entertainment hosted by the Firm;
- Systematic may, from time to time, purchase software applications, access to databases, and other products or services from some consultants;
- Systematic may pay registration or other fees for the opportunity to participate, along with other investment managers, in consultant-sponsored industry forums or conferences. These conferences or forums provide Systematic with the opportunity to discuss a broad variety of business topics with consultants, clients, and prospective clients; and
- In some cases, Systematic may serve as investment adviser for the proprietary accounts of consultants or their affiliates, or as adviser or sub-adviser for funds offered by consultants and/or their affiliates.

In general, Systematic relies on each consultant to make appropriate disclosure to its clients of any conflict that the consultant may believe to exist due to its relationship with our Firm.

### **Consulting Databases**

Systematic may pay consultants or other third parties to include information about Systematic's investment approaches in databases that they maintain to describe the services provided by investment managers to prospective clients.

### **Relationships with Solicitors**

Systematic is not a party to agreements with unaffiliated third party solicitors for the solicitation of clients on behalf of Systematic.



As noted above in “Item 10 – Other Financial Industry Activities and Affiliations,” Systematic is party to agreements with AMG Affiliates, pursuant to which Systematic pays the AMG Affiliates a fee for services rendered to Systematic to support Systematic’s retention of and provision of investment advisory services to clients.

### **Compensation from Third Parties**

Systematic does not receive any monetary compensation or any other economic benefit from a non-client for Systematic’s provision of investment advisory services to a client.

### **Item 15 – Custody**

Systematic does not act as a custodian over the assets in the accounts we manage for our clients. Clients must make their own arrangements for custody of securities in their accounts in order to use Systematic’s services. Such custodians may be broker/dealers, banks, trust companies, or other qualified institutions. Typically the qualified custodian will directly provide the client with at least quarterly account statements relating to the assets held within the account managed by Systematic. Each client should carefully review the qualified custodian’s statement upon receipt to determine that it completely and accurately states all holdings in the client’s account and all account activity over the relevant period. Any discrepancies identified by a client should be immediately reported to Systematic and the qualified custodian.

In addition to the account statements provided by qualified custodians to our clients, as noted in “Item 13 – Review of Accounts,” Systematic also provides account statements to some clients on a monthly or quarterly basis. As such, we encourage those clients to compare the statements provided to them by Systematic against those provided to them by the qualified custodians who hold the assets of their accounts, and to report any questions, concerns, or discrepancies to both Systematic and the qualified custodian promptly. Such questions, concerns, or discrepancies may be communicated to Systematic by writing, e-mailing, or telephoning us using the contact information on the cover page of this Brochure.

Our statements may vary from custodial statements based on accounting procedures, reporting dates, and/or valuation methodologies of certain securities.

However, please note that custodian statements reflect the official books and records for the accounts we manage.

### **Item 16 – Investment Discretion**

As noted in “Item 4 – Advisory Business” of this Brochure, Systematic is typically granted discretionary authority by a client at the outset of an advisory relationship to determine the identity and amount of securities to be bought or sold. Where investment discretion has been granted, Systematic manages the client portfolio and generally makes investment decisions without consultation with the client involving its determinations regarding which securities are bought and sold for the account, the total amount of the securities to be bought and sold, the brokers with whom orders for the purchase or sale of securities are placed for execution, and the price per share and the commission rates at which securities transactions are effected. However, such discretion is exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts of securities for purchase or sale, Systematic observes the investment policies, limitations, and restrictions that are applicable to our clients’ accounts, as set forth by our clients. In some instances, Systematic’s discretionary authority may also be limited by applicable firm-wide legal, risk, and/or regulatory requirements or restrictions. Systematic’s discretionary authority may also be limited by directions from a client to have transactions effected through specified brokers or the client’s own trading desk, as described more fully in “Item 12 – Brokerage Practices.”

Any investment guidelines and restrictions, including amendments, must be provided to Systematic by our clients in writing. A client will typically grant Systematic discretionary authority by executing an investment management agreement, which includes, among other items, a statement giving Systematic authority to invest the assets identified by the client in manner consistent with the investment objectives and limitations delineated by the client, and to engage in transactions on a discretionary basis in the client account.

As noted above, some clients place investment guidelines upon their accounts, including social, political, or other restrictions that prohibit certain investments. Systematic may, therefore, advise some clients or take actions for them that differ from

recommendations or action taken for other clients. Systematic is not obligated to recommend to any or all clients any investments that it may recommend to, or purchase or sell for, certain other clients.

From time to time, Systematic also manages investment advisory accounts not involving discretionary management services such as multi-manager, multi-discipline investment products, and diversified manager allocation products, which include the provision of a model portfolio to another manager. Please see “Item 4 – Advisory Business” and “Item 5 – Fees and Compensation” of this Brochure for information regarding these services.

### **Class Action Suits and Other Legal Actions**

Systematic is not obligated to, and typically does not, take any legal action with regard to class action suits relating to securities purchased by Systematic for its clients. Systematic generally does not have authority to submit claims or elections on behalf of clients in legal proceedings. Systematic typically provides instructions to custodians and brokers regarding tender offers and rights offerings for securities in client accounts. Systematic does not provide legal advice to clients and, accordingly, does not determine whether a client should join or opt out of any legal proceedings, including bankruptcies or class actions, involving securities held or previously held by the client. Should a client wish to retain legal counsel and/or take action regarding any class action suit proceeding, Systematic will provide the client or the client’s legal counsel with information that may be needed upon the client’s reasonable request.

### **Item 17 – Voting Client Securities**

Since client accounts may hold stocks or other securities with voting rights, our clients often have the right to cast votes at the corporate issuers’ shareholder meetings. However, since shareholders often do not attend shareholder meetings, they have the right to cast their votes by “proxy.” In such cases, Systematic’s clients will either retain proxy voting authority or delegate it to Systematic. If a client has delegated such authority to the Firm (whether in the client’s investment management agreement with Systematic or otherwise), it is the client’s obligation to direct their account custodian or brokerage firm to forward applicable proxy materials to Systematic’s agent of record so their account

shares can be voted. Systematic will not vote shares unless its agent receives proxy materials on a timely basis from the custodian or brokerage firm. Systematic clients may revoke Systematic’s voting authority by providing written notice to Systematic. If a particular client for whom Systematic has investment discretion has not explicitly delegated proxy voting authority to Systematic, Systematic will not vote such client’s proxies, and the client will retain the voting authority for its account. In such a case, the client will receive proxy solicitations from the custodian, and the client may contact Systematic with any questions about a particular solicitation at the contact information found on the cover page of this Brochure.

Where clients have delegated proxy voting authority to Systematic, as an investment adviser and fiduciary of client assets, Systematic has implemented proxy voting policies and procedures intended to protect the value of shareholder investments and designed to reasonably ensure that Systematic votes proxies in a manner which places our clients’ interest before those of the Firm. In voting proxies, we seek to both maximize the long-term value of our clients’ assets and to cast votes that we believe to be fair and in the best interest of the affected clients.

If a client has delegated proxy voting authority to Systematic, but would nevertheless like to direct our vote on a particular proxy solicitation, the client may contact us at the contact information found on the cover page of this Brochure.

### **Voting Agent**

Systematic has contracted with an independent third-party provider of proxy voting and corporate governance services (“proxy agent”) which specializes in providing a variety of services related to proxy voting. This proxy agent has been retained to conduct proxy research, execute proxy votes, and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for the appropriate client account.

Systematic has adopted the proxy agent’s proxy voting policy guidelines as its own and, as such, the proxy agent votes Systematic’s clients’ proxies (for those client accounts over which it has proxy voting authority) according to those policy guidelines.

### **Conflicts of Interest**

Systematic generally follows the proxy agent’s proxy voting guidelines when voting proxies. The adoption

of the proxy agent's proxy voting policies, which provide pre-determined policies for voting proxies, was designed to remove conflicts of interest that could affect the outcome of a vote. By adopting these policies, Systematic has essentially removed discretion that Systematic would have otherwise had to determine how to vote proxies in cases where Systematic has a material conflict of interest.

Notwithstanding the appointment of the proxy agent, there may be some instances where Systematic votes proxies. For example, there may be a situation where the proxy agent itself may have a material conflict of interest with respect to a proxy vote that it is voting on Systematic's clients' behalf. In those situations, the proxy agent is obligated to fully or partially abstain from voting the proxy. In addition, Systematic's Chief Compliance Officer will typically become involved in any other situation, though expected to be rare, where Systematic determines to remove voting discretion from the proxy agent. In these situations, the Proxy Voting Committee will provide the actual voting recommendation after a review of the vote(s) involved with such determination being based in the Committee's determination of what is in the best interests of Systematic's clients. Systematic will work to ensure that prior to a vote being made, conflicts of interest are identified and material conflicts are properly addressed such that the proxy may be voted in the best interest of clients.

The proxy agent has policies and procedures in place to mitigate potential conflicts of interest. The proxy agent is obligated to notify Systematic, in advance of voting any proxies, in specific situations where it may have a material conflict of interest with a company whose proxy it is responsible for voting on behalf of a Systematic client. If this situation occurs, the proxy agent will typically follow its procedures regarding conflicts of interest and Systematic will generally follow the same procedures it does for situations where the proxy agent has a material conflict of interest, as described above.

Systematic's Proxy Voting Committee convenes as necessary. Issues reviewed by the Committee may include the consideration of any vote involving a potential conflict of interest, the documentation of the resolution of any conflict of interest, or the consideration of its voting policies and procedures.

### **Proxy Voting Guidelines**

Systematic maintains fivesets of proxy voting policies: one based on AFL-CIO policies for Taft-

Hartley Plan Sponsors; another for clients with Socially Responsible Investing guidelines; another for Public Plans; another for Catholic or other faith-based entities and the fifth being a General Policy for all other clients, covering U.S. and global proxies. Institutional clients may select which set of proxy policies they wish be used to vote their account's proxies. In instances where the client does not select a voting policy, Systematic will typically apply the General Proxy Voting Policy when voting on behalf of the client.

Systematic receives Proxy Reports generally on a quarterly basis for each institutional account where we have voting authority. These reports are reviewed by Compliance to ensure ballots are received and votes are cast. Systematic also performs a periodic comparison to ensure accounts are linked to the correct voting policy.

Systematic may process certain proxies without voting them, such as by making a decision to abstain from voting or take no action on such proxies (or on certain proposals within such proxies). Examples include, without limitation, proxies issued by companies that the Firm has decided to sell, proxies issued for securities that the Firm did not select for a client portfolio (such as securities selected by the client or a previous adviser, unsupervised securities held in a client's account, money market securities, or other securities selected by clients or their representatives other than Systematic), or proxies issued by foreign companies that impose burdensome or unreasonable voting, power of attorney, or holding requirements, such as with share blocking.

Systematic also seeks to ensure that, to the extent reasonably feasible, proxies for which it receives ballots in good order and receives timely notice will be voted or otherwise processed (such as through a decision to abstain or take no action). As noted above, Systematic may be unable to vote or otherwise process proxy ballots that are not received in a timely manner due to limitations of the proxy voting system, custodial limitations, or other factors beyond the firm's control. Such ballots may include, without limitation, ballots for securities out on loan under securities lending programs initiated by the client or its custodian, ballots not timely forwarded by a custodian, or ballots that were not received by Systematic firm its proxy voting vendor on a timely basis.

If you would like a copy of Systematic's Proxy Policy, if you would like to review how Systematic voted on a particular security in your account, or if

you would like further information on the proxy agent's proxy voting policy guidelines, please contact us using the contact information found on the cover page of this Brochure.

### **Item 18 – Financial Information**

Systematic has no financial condition that impairs our ability to meet our contractual and fiduciary commitments to our clients, and Systematic has not been the subject of a bankruptcy proceeding.

## **Addendum**

### **Systematic Financial Management L.P. Privacy Policy**

We recognize our obligation to keep information about our clients secure and confidential. It's important for you to know that we do not sell or share Client Information with marketers outside Systematic Financial Management. Systematic carefully manages information among our service providers to provide our clients with better service, more convenience, and to offer benefits to our clients.

This policy covers Client Information, which means personally identifiable information about a client or a client's current or former relationship with Systematic. This policy is provided to the Firm's clients as required by the Federal Financial Privacy Law.

It is Systematic's policy to ensure "consumer report information" (such as personal information about client's or employees, e.g., Social Security number) is protected, maintained and disposed of in ways that the information is safeguarded from unauthorized uses or disclosures. Systematic will take reasonable measures to dispose of clients' personal information in such a manner that the information cannot be read or reconstructed for unauthorized use. Systematic will determine the appropriate method of disposal on an as needed basis.

#### **Security of Information is a Priority**

Keeping financial information secure is one of our most important responsibilities. We value our clients trust, and we handle information about the Firm's clients with care. Our associates are governed by confidentiality policies requiring confidential treatment of Client Information. Your Client Information may also be handled by service providers for Systematic.

We limit access to non-public Client Information to those employees and service providers who need to know that information to provide products and services to you or to maintain or service those products or services.

We maintain physical, electronic and procedural safeguards that comply with federal standards to protect your non-public, personal Client Information and ensure its integrity and confidentiality.

We continually assess new technology for protecting information and we upgrade our systems when appropriate.

#### **Disclosing Information in Other Situations**

We may also disclose any of the types of Client Information to non-affiliate third parties when permitted or required by law. This may include disclosure in connection with a subpoena or similar legal process, or an audit or examination. We may also share any of the types of Client Information outside our family of service providers but only if we have your consent.

#### **Collecting Information**

In the course of conducting business with you, we collect and use various types of information to service your accounts, to save you time and money and to better understand your needs.

We collect the following Client Information about you from the following sources:

1. Information you provide to us on applications and contracts and through other means, such as clients names, addresses and social security or tax-identification numbers, income, occupation and birth date; and
2. Information about client transactions and account experience with Systematic, such as client account balances, investment history, and information about the Firm's communication with our clients, such as account statements, trade confirmations and call activity.

#### **Sharing Information with Third Parties**

Systematic typically does not share non-public client information with unaffiliated third parties other than as necessary to carry out the actual performance of the investment management services it has been hired to provide. Thus, we may share all types of Client Information with service providers that work for us to provide you with products and services that you requested or already have with us. We share only the information needed to provide those services and to provide good client experience. These service providers may include financial services providers, such as an account's custodian bank, transfer agent,

administrator and investment companies and non financial companies, such as proxy voting service providers and data processing companies. These service providers might assist the Firm, for example in fulfilling service requests, processing transactions, maintaining company records, or helping mail account statements and trade confirmations. Systematic may also use such information in the account opening process including conducting anti-money laundering screening. In addition, Systematic may share any of the types of Client Information with affiliated and non-affiliated financial institutions that work for the Firm to provide marketing and other services. All of these companies act on the Firm's behalf, and are contractually obligated to keep the information that Systematic provides to them confidential, and use the information only to provide the services the Firm has asked them to perform for the Firm's clients. Systematic does not sell client information to unaffiliated third parties for marketing purposes.

#### **Disclosure of Information to Affiliates**

As an affiliate of Affiliated Managers Group (AMG), Systematic may also share information about its experiences or transactions with clients or their accounts with AMG. AMG abides by a "No Share" policy whereby this information is not shared with other affiliates or with non-affiliated third parties.

#### **Making Sure Information is Accurate**

Keeping the information about client accounts accurate and up-to-date is very important. Systematic provides clients with access to account information through various means, such as account statements. If clients ever find that account information is incomplete, inaccurate or not current, or if there are any other questions, please call or write us at 201-928-1982. The Firm will try to update or correct any erroneous information or investigate any complaint as quickly as possible.

#### **Keeping Up-to-Date with our Privacy Policy**

Systematic will provide notice of our privacy policy annually, as long as clients maintain an ongoing relationship with Systematic. This policy may change from time to time.