

**Item 1 – Cover Page**

**EII Realty Securities, Inc.**

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March 29, 2012

This Brochure provides information about the qualifications and business practices of EII Realty Securities, Inc. (“EIIRS” or “the Firm”). If you have any questions about the contents of this Brochure, please contact Michael Meagher, Chief Compliance Officer, at (212)735-9578. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

EIIRS is a registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about EIIRS also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for EIIRS is 106687.

## **Item 2 – Material Changes**

There were no material changes to Part 2A since the prior version dated March 28, 2011

Please contact Michael Meagher, Chief Compliance Officer, at 212-735-9578 to obtain a free copy of our Brochure.

Additional information about EII Realty Securities, Inc. is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 – Advisory Business**

EII Realty Securities, Inc. (EIIRS) is an independent registered Investment Advisor providing global real estate securities portfolio management services to US and Canadian institutions. The firm is a wholly owned subsidiary of European Investors Inc., (EII) which is also a Registered Investment Advisor (SEC file #801-19755). EII is owned by European Investors Holding Company, Inc., which was founded in 1983 and is majority owned by European Investors' President and Co-founder Christian Lange. The firm maintains offices in New York City, Amsterdam, Munich and Singapore. As of December 31, 2011 EIIRS managed \$3,162,119,059 on a discretionary basis.

EIIRS was founded in 1993 and is one of six affiliated companies that are wholly owned subsidiaries of European Investors Holding Company: 1) European Investors Incorporated is a registered investment advisor providing global real estate securities and US equity and fixed income portfolio management services to offshore (non US/Canadian) entities 2) EII Realty Corp is our private real estate advisory company 3) European Investors (Singapore) PTE. LTD was established as our Asian research base 4) EII (Netherlands) B.V. was established as our European research base and 5) European Investors Deutschland AG was established as a European sales and client service office.

EIIRS focuses on investing in both U.S. and non-U.S. companies whose business is to own, operate, develop and manage real estate. The primary emphasis is on real estate investment trusts ("REITs") or REIT-like structures that are "principally engaged" in the ownership, construction, management, financing, or sale of residential, commercial, or industrial real estate. "REITs" are defined as companies that are permitted by local regulations to avoid payment of taxes at the corporate level by paying out a substantial portion of income to shareholders as dividends. "Principally engaged" means that at least 50% of a company's revenues are derived from such real estate activities or at least 50% of the fair market value of a company's assets is invested in real estate.

EIIRS offers a variety of investment strategies which are available via separately managed accounts, or via the Firm's proprietary mutual funds. Strategies include Global Real Estate Securities, International Real Estate Securities, US REITs, US REIT Income/Preferred and Asian Real Estate Securities. In addition, EIIRS provides investment advisory services for its own proprietary mutual funds, as well as providing sub-advisory services for clients in the form of separately managed accounts.

EIIRS may also enter into foreign currency transactions on behalf of client accounts.

EIIRS offers discretionary and non-discretionary investment management services to clients. Depending on their investment objectives, clients may select from a number of investment strategies offered by the Firm. Investment guidelines and restrictions are determined jointly by the firm and the client at the onset of the relationship.

EIIRS proprietary mutual funds include the following:

E.I.I. Realty Securities Fund
E.I.I. International Property Fund
E.I.I. Global Property Fund

## **Item 5 – Fees and Compensation**

### **Management Fee**

Management fees with respect to separately managed accounts may be negotiable.

The specific manner in which fees are charged by and paid to EIIRS are fully documented in the client’s written investment management agreement with the Firm.

Separately managed account clients are always invoiced directly for investment management services. Fee’s are never debited from the clients account nor are any fee’s billed in advance as all fees are billed in arrears. Management Fees are calculated based on a percentage of the market value of assets under management.

The standard fee schedule typically charged for a **U.S. REIT** separately managed account is:

<b>Assets Under Management</b>	<b>Fee</b>
First \$10 Million	0.75%
Above \$10 Million- \$30 Million	0.65%
Above \$30 Million -\$50 Million	0.50%
Above \$50 Million	0.40%

The standard fee scheduled typically charged for a **Global, Asia or International Real Estate Securities** separately managed account is:

<b>Assets Under Management</b>	<b>Fee</b>
First \$10 Million	1.00%
Above \$10 Million- \$30 Million	0.90%
Above \$30 Million -\$50 Million	0.75%
Above \$50 Million	0.65%

For accounts limited to short-term instruments or Preferred strategy separately managed accounts, the standard fee schedule charged is 0.5%.

Subject to negotiation some accounts may be charged a fixed fee, or basis point fee plus a performance incentive fee. Clients are billed for investment advisory services at the end of a calendar quarter for the three-month period then ended. Payment is due within thirty days of billing.

Amounts greater than \$1 Million may be invested in the E.I.I. Realty Securities Fund, E.I.I. International Property Fund, or the E.I.I. Global Property Fund, all registered investment companies (“mutual funds”). The management fees are capped at 1% of net assets for the E.I.I. International Property Fund and the E.I.I. Global Property Fund, while the management fees are capped at 0.80% on the E.I.I. Realty Securities Fund. A full discussion of the applicable fee schedules of any of the mutual funds indicated herein is contained in the mutual fund’s Prospectus.

### **Redemption and Termination**

In regards to the mutual funds, a redemption fee of 1.5% will be deducted from the redemption amount on shares held less than 90 days. Refer to the respective mutual funds’ prospectus for a comprehensive description of redemption fees. The fees are paid to the respective fund held and are designed to help offset the brokerage commissions, market impact, and other costs associated with short-term shareholder trading.

The redemption fee will not be imposed on shares purchased through reinvested distributions (dividend and capital gains distributions). This fee will not be assessed to the participants in employer-sponsored retirement plans that are held in the relevant mutual fund in an omnibus account (such as 401 (k), 403 (b), 457, Keogh, Profit Sharing Plans, and Money Purchase Pension Plans) or to accounts held under trust

agreements at a trust institution held at the mutual fund in an omnibus account. The redemption fee will not be assessed on rollovers, transfers, transfers-in-kind or changes of account registration. The redemption fee will also not be assessed due to the death or disability of a shareholder.

Clients invested through separately managed accounts may be charged a fee based on performance if requested by the client and agreed to by the firm. Performance fees are subject to negotiation and are discussed further in Item 6. All separately managed account clients will need to remit fees as referenced in the investment management agreement. Some custodians will remit fee payments directly to EIIRS after receiving instructions from the client directly.

Generally, investment management services provided by EIIRS are terminable by either party upon 30 days prior written notice, unless otherwise specified in the Investment Management Agreement. In the case of any termination, management fees will be determined on a pro rata basis through the date of termination.

### **Fees Charged to Employees**

Though EIIRS does not have the ability to waive mutual fund fees for its employees, the Firm may choose to allow its employees to invest in our proprietary mutual funds for an amount below the minimum required investment stated in the mutual fund's prospectus.

### **Other Fees and Expenses**

The Firm's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as other managers' fees charged, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Our proprietary mutual funds also charge internal management fees, which are disclosed in each fund's prospectus document.

Item 12 further describes the factors that EIIRS considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commission rates).

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

As referenced previously, EIIRS may enter into a performance fee arrangement with a client invested through a separately managed account.

Performance based fee arrangements may create an incentive for the Firm to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

EIIRS has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 – Types of Clients**

EIIRS provides investment management services to a diverse group of institutions, including public and corporate pension funds, endowments, foundations, Taft-Hartley plans, state and municipal government entities, bank and charitable organizations as well as high net worth individuals and families. EIIRS may also manage accounts for pooled investment vehicles. EIIRS also acts as a sub-investment manager or sub-advisor to various other (non-proprietary) mutual funds.

The customary minimum portfolio amount considered for institutional discretionary real estate securities portfolio management is \$20,000,000. Smaller amounts are generally directed into the appropriate proprietary mutual fund. Minimum portfolio amounts may be negotiated on a case by case basis.

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

EIIRS manages clients' and proprietary mutual funds' portfolios utilizing real estate investment strategies. The Firm identifies investments through research-driven fundamental analysis. Generally, the Firm is benchmark agnostic as its investment decision-making process tends to review all real estate holdings equally and will look to benchmarks as a barometer for investment risk control management.



## **Investment Methodology and Strategy**

### *Research Process and Portfolio Construction*

The Firm employs a top-down and bottom-up approach in its investment analysis. Investment teams consisting of portfolio managers and research analysts, located in our New York, Amsterdam and Singapore research offices, incorporate both qualitative and quantitative inputs and integrate a top down macro perspective with bottom-up fundamental company analysis to identify the most appropriate securities to include in an investment portfolio.

The team continually monitors investments and will add or reduce exposure to certain securities held in the client's portfolio when it is deemed appropriate.

Types of real estate securities under consideration include, but are not limited to, office buildings, shopping centers and malls, apartments, industrial buildings and hotels. The investment team's considerations include, but are not limited to, the quality and location of the property, the strengths of the company's management, business strategy, competitive advantages and financial strength. In addition, other factors such as the company's market capitalization, liquidity and dividend yield are considered.

### **Risk Management**

EIIRS' portfolio construction process is designed to mitigate risk. Diversifying holdings across regions, countries, sectors and market capitalization, are some of the methods utilized in the Firm's risk management process.

In addition, valuation tools such as the company's internal rate of return, earnings multiples, cash flow and leverage are monitored and analyzed.

### **Risk of Loss**

***Investing in securities involves risk of loss that clients should be prepared to bear.***

EIIRS invests in real estate securities. As such, EIIRS' investments will be subject to the risks inherent in the ownership of real property and equities. Real estate values are affected by a number of factors, including changes in the general economic climate, local conditions (such as an oversupply of space or a reduction in demand for space), the quality and philosophy of management, competition based on rental rates, attractiveness and location of the properties, financial condition of tenants, buyers and sellers of properties, quality of maintenance, insurance and management services, and changes in operating costs. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the

availability of financing, potential liability under changing environmental and other laws, uninsured casualties, the exercise of the right of eminent domain by governmental entities, acts of God and other factors that are beyond the control of European Investors. Accordingly, clients who retain the Firm to manage their assets may experience a greater degree of risk compared to having an investment adviser employing an asset diversification investment strategy.

EIIRS looks at market risk based on the political, economic and real estate fundamental factors associated with investing in a specific region, country or city. Setting broad diversification guidelines as a form of risk control, EIIRS adds risk premiums to companies operating in emerging markets and with significant development components. The firm seeks to control risk by focusing on companies with conservative balance sheets, high quality assets and experienced management teams.

EIIRS may make investments outside the U.S. Such investments involve risks and special considerations some of which are not typically associated with U.S. investments. These include political risks, economic risks, legal risks, foreign currency and exchange risks, accounting and tax risk, restrictions on repatriation of capital and profits and different tax requirements.

Each of EIIRS' investment strategies may be deemed to be a speculative investment and is not intended as a complete investment program. It is designed only for clients and investors who are able to bear the economic risk of the loss of their investment, can afford to be a "long-term investor" and who have a limited need for liquidity in their investment.

**Preferred Securities Risks.** There are special risks associated with investing in preferred equity securities, including: Deferral. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. Some preferred stocks are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid. There is no assurance that dividends or distributions on noncumulative preferred stocks will be declared or otherwise made payable. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments. Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. Generally, preferred security holders have no voting rights with respect to the issuing. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of EIIRS or the integrity of the Firm's management.

*EIIRS does not have any disciplinary information applicable to this Item to disclose.*

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

EIIRS has established the European Investors World Group Trust (the "Trust") as a tax-exempt group trust, initially with a single investment fund known as the E.I.I. World Fund (the "World Fund"). The Trust is designed to permit qualified retirement plans and certain government plans to commingle their assets for investment purposes on a tax-exempt basis in one or more funds. Each investor should read the Offering Memorandum and all other materials carefully prior to investing in the World Fund.

EIIRS has relationships with the following affiliated entities:

The parent company, European Investors Incorporated, is also a Registered Investment Advisor (SEC file #801-19755) providing global real estate securities, US equity and fixed income portfolio management services to offshore (non US/Canadian) entities. Members of the EIIRS's investment committee may also overlap with the investment committees of European Investors Inc.

E.I.I. Realty Corp. ("EII Realty") provides U.S. direct real estate advisory services to its clients. From time to time, EII Realty may provide investment advice on private partnership investments or private company investments. E.I.I. Realty Corp may on occasion, arrange real estate transactions whereby it is compensated with profit participation in addition to standard management, closing and administrative fees. In addition, EII Realty is also a licensed real estate broker in the State of New York.

E.I.I. Realty Securities Trust ("EII Realty Trust") is an investment company registered with the Securities and Exchange Commission (SEC File No. 811-08649). The Firm is the investment adviser to the Trust. E.I.I. Realty Trust provides administrative services to the E.I.I. Realty Securities Fund, E.I.I. Global Property Fund and International Property Fund. EII will receive monthly investment advisory fees, as well as administrative fees as further described in the fund's prospectus.

EII (Netherlands) B.V. is a Dutch entity located in Amsterdam and provides real estate securities advisory services to the Firm.

European Investors (Singapore) PTE, Ltd., is a Singaporean entity located in Singapore and provides real estate securities advisory services to the Firm.

European Investors (Deutschland) AG is a German entity located in Munich and provides marketing and client services to EIIRS.

EII has entered into a Distribution Services Agreement with BNY Mellon Distributors Inc which would allow an employee to become a Registered Representative of the Distributor. This employee currently has his Series 6, 63 and 7 licenses therefore he would have the right to distribute prospectus and marketing materials relating to EII's Mutual Funds, to the Registered Investment Advisor Channel and Institutional Investors, but not individual investors. This employee is supervised by the Distributor, who is acting as the principle to supervise this Registered Representative. As a result of this arrangement, the aforementioned employee may have an incentive to recommend E.I.I.'s Mutual Funds to clients. However, this conflict of interest is mitigated by the fact that the employee does not receive any additional compensation for sale of E.I.I.'s Mutual Funds. All costs associated with the distribution of these Mutual Funds are borne exclusively by EII.

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

EIIRS has adopted a Code of Ethics designed to address and prevent potential conflicts of interest as required under Rule 204A-1 of the Investment Advisers Act. The Code of Ethics describes the Firm's high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes, among other items, provisions relating to the confidentiality of client information, prohibition on insider trading, prohibition of spreading rumors, restrictions on the acceptance of extravagant gifts and entertainment, the reporting of certain gifts and business entertainment, and personal securities trading procedures. All supervised persons at the Company must acknowledge annually the terms of the Code of Ethics.

From time-to-time, the Firm's supervised persons may transact in or hold the same securities as clients. In these situations, the Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of the Firm will not materially interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities and transactions have been designated as exempt securities or transactions, based upon a determination that these would materially not interfere with the best interest of clients. The Code requires pre-clearance of certain transactions and restricts trading in close proximity to client trading activity. In addition, in order to prevent supervised persons from inappropriately profiting from effecting personal securities transactions and to prevent the appearance of impropriety as a result of the supervised persons effecting personal securities transactions based on clients' transactions, the Code has a forfeiture of profit rule for securities purchased and sold or sold and purchased by supervised persons within a certain period of time. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from client's activity in a security held by an employee.

Employee trading is monitored by Compliance personnel to reasonably detect and prevent conflicts of interest between EIIRS and its clients.

Among others, the Code requires supervised persons to:

- Submit to the Compliance Team an initial and an annual report listing their securities holdings and a quarterly report of transactions;
- Pre-clear personal securities transactions, other than those specifically exempted by the Code, by the Compliance Team or other appropriate Officer of the Firm;
- Provide duplicate copies of confirmations of all personal securities transactions and copies of periodic statements for all securities accounts to the Compliance Team for review (unless a specific exemption applies);
- Not invest in IPOs;
- Obtain approval from the Compliance Team prior to investing in Private Placements (limited offerings);
- Comply with the federal securities laws, certifying that they have read and understand the Code and reporting any violations of the Code to the Compliance Team;
- Not trade either in their personal accounts or on behalf of client accounts on the basis of material non-public information; and
- Report any outside business activities and ensuring they are not using their position for a personal benefit.

Employees who violate the Code and the Firm's Compliance Manual are subject to disciplinary action including, but not limited to, written warnings, fines and termination of employment.

EIIRS will provide a complete copy of its Code of Ethics to any client or prospective client upon request made to Michael Meagher, Chief Compliance Officer.

From time-to-time, affiliated accounts that are managed by European Investors and EIIRS may trade in the same securities with client accounts on an aggregated basis. In such circumstances, affiliated and client accounts will share commission costs equally and receive securities at a total average price. In the event that the aggregated order is partially filled, the Firm will generally allocate the partially filled order pro rata to the clients, including affiliated accounts, in the order.

EIIRS, its officers, directors, employees and affiliates may from time to time have an ownership interest in one or more of the mutual funds or a related entity, may not be subject to the same fees otherwise charged investors and may have positions or interests in securities which are purchased or sold on behalf of clients. Such conflicts are disclosed in the prospectus of the mutual funds. EIIRS will endeavor to resolve conflicts of interest with respect to investment opportunities in a manner which it deems equitable to clients and their investors under the prevailing facts and circumstances.

From time-to-time, various potential and actual conflicts of interest may arise from the investment advisory activities of the Firm, its employees and affiliates. The Firm, its employees and affiliates may give advice to, or take action for, their own accounts or other clients that may differ from, conflict with or be adverse to advice given or action taken for a client or clients.

## **Item 12 – Brokerage Practices**

### *Broker Selection*

Generally, EIIRS selects broker-dealers through which to effect transactions on the basis of best execution. "Best execution" does not simply mean effecting transactions at the lowest possible commission rate, transaction costs and price, but includes a number of factors mentioned herein.

EIIRS seeks to effect transactions at a price, commission and transaction cost (e.g., mark-up or mark-down) that provides the most favorable total cost or proceeds reasonably attainable under the circumstances. The Firm may consider various factors when selecting

broker-dealers including, but not limited to, the nature of the portfolio transaction, the size of the transaction, broker's trading expertise, reliability, responsiveness, reputation, execution, clearance, settlement and error correction capabilities, willingness to commit capital, access to a particular trading market, security conditions (e.g., liquidity, volatility), and the value of research it provides.

EIIRS has discretion to determine, without obtaining prior consent from any client, the:

- broker or dealer to execute transactions; and
- commission rates or commission equivalents charged for effecting transactions.

Clients' transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions (and mark-ups or mark-downs) than would be the case for more routine services.

Periodic evaluation of broker relationships are made by the Firm to determine the adequacy of commissions paid and services received.

#### *Cross-Trades*

From time-to-time, the Firm may effect a purchase of a security for one or more clients at the same time as it effects a sale of the same security for another client. Such transactions may occur to rebalance the positions held in clients' portfolios in order to achieve uniform results among clients, to take into account clients' cash flows or to comply with investment guidelines and restrictions, and will generally be effected at the volume-weighted-average-price ("VWAP"), the closing price for the security or some other fair and reasonable basis.

#### *Research and Brokerage Services*

As is customary industry practice, broker-dealers may provide their own proprietary research to investment advisers, including the Firm. Generally, commissions and other transaction costs (e.g., "mark-ups" and "mark-downs") paid to these broker-dealers to execute transactions include the cost to receive their proprietary research and other brokerage services.

EIIRS may obtain third-party research products and services paid for with clients' commissions ("Soft Dollars"). Using the Firm's clients' commissions to pay for research creates an inherent conflict of interest between the Firm and clients as the Firm would have to otherwise use its own funds to obtain this research product or service. In addition, while the Firm uses this research to benefit all of its clients in its investment decision-making or trade execution process, clients whose commissions are used to pay for the research may not necessarily receive the direct benefit of this research or brokerage

services while clients who do not pay for these services may receive the benefit. Soft Dollar commission rates may be higher than commission rates that might be charged by other broker-dealers to execute the transaction.

The Firm's Soft Dollar Committee, consisting of the Firm's Chief Operating Officer, Head Trader, Chief Financial Officer, Chief Compliance Officer, Compliance Associate, Portfolio Managers members of our Accounting team meet quarterly to review and approve research products and services the Firm receives and pays for with Soft Dollars. Research services obtained with Soft Dollars may include written information and analyses concerning specific securities, companies or sectors, market, financial and economic studies and forecasts, statistics and pricing or appraisal services, and access to research analysts and company executives, along with software, data bases and other technical and telecommunication services, lines, and equipment utilized in the investment management process.

In the event that the product or service has a "mixed use" and may be used for non-research purposes (e.g., portfolio and client accounting system or software), the Soft Dollar Committee will assess what portion of the product or service may be paid with Soft Dollars with the balance paid with the Firm's own funds.

EIIRS utilizes the services of an independent third party, Westminster Research Associates ("Westminster Research"), to administer the firm's soft dollar program. Westminster Research specializes in independent research products and services, consolidating all administration and reporting of commission management needs with one firm. Utilizing Westminster Research provides an added layer of due diligence of the soft dollar process, as they will not accept or approve of a soft dollar expense allocation unless it meets the SEC safe harbor guidelines.

Because European Investors and EIIRS share a common trading desk and investment professionals occupy similar positions in both companies, the firms believe that by aggregating trade orders for their respective clients and by utilizing their respective clients' commissions for Soft Dollars is both reasonable and appropriate. The Soft Dollar Committee monitors Soft Dollar commissions allocated to the Firm's and EI's respective clients to ensure that such allocations are fair and reasonable under the circumstances.

#### *Aggregation and Allocation*

EIIRS, at its discretion, may aggregate orders in the same security for clients transacting in that security and will generally allocate the securities or proceeds arising as a result of the transactions (and the related transaction expenses) on an average price basis among the clients participating in the order. From time-to-time, EIIRS may include orders for the



same security that its affiliate, European Investors may be transacting for its clients. In these situations, the respective clients of the Firm and European Investors in the order will generally receive an allocation, on a pro rata basis, of the securities or proceeds (and the related transaction expenses) on an average price and transaction cost basis.

It is the Firm's routine practice to aggregate contemporaneous trade orders for the same securities. We believe that generally this practice results in lower commissions and better execution prices. Each account participates in such aggregate order at the average price except in cases when, due to limitations on the liquidity of a security, multiple transactions are necessary to complete a buying or selling program. To reduce custodial costs to clients in such cases, we allocate trades according to allocation rules based on a percentage of holdings of each account in the individual security, sector or overall cash position. The proration may be adjusted to eliminate odd lots and de minimis positions. This may cause some accounts, particularly those that are eliminated from allocations to avoid de minimis positions in their accounts, to perform less well than other, similarly managed accounts. However, in certain instances, average pricing may result in higher or lower total net execution price than otherwise obtainable by effecting client transactions separately. The Firm believes that aggregating orders contribute to seeking best execution.

#### *Directed Brokerage*

With EIIRS' consent, clients may direct the Firm to effect some or all of their transactions with certain broker-dealers. In the event that the Firm agrees to accept the client's directed brokerage instructions, clients should be aware that the Firm may not be able to obtain best execution for their transactions and may receive less favorable prices and pay a higher commission rate for executing these transactions. Generally, directed trades will be executed subsequent to the execution of non-directed trades which may result in the client realizing a less favorable (or more favorable) execution price. However, when feasible and at the discretion of the Firm, the trading desk may aggregate directed trades with non-directed trades for execution and "step out" the directed broker client's trades to that broker. In such cases, clients that provide directed brokerage instructions will receive the same average price as the other clients in the aggregation.

#### *Trade Errors*

From time-to-time, the Firm may cause a trade error to occur. Trade errors may happen as a result of effecting the incorrect amount of shares (e.g., 10,000 shares were purchased when the intention was to purchase 1,000 shares), effecting transactions in the wrong client account, and mistakenly labeling an order to buy shares as an order to sell shares, among other reasons. When trade errors occur, the Firm's policy is to correct the error

promptly. In the event that the Firm caused the error, the Firm will make the client whole for the loss unless the equities of the situation may cause an unjust enrichment for the client. If the client caused the error (e.g., the client advised the Firm that a certain amount of funds would be wired to the account on a certain day but a substantially smaller amount was wired or the funds were not wired and the Firm acted upon the client's advice), the client will bear the cost of the error. If a third-party caused the error (e.g., the Firm properly gave trade instructions to a broker-dealer but the broker-dealer executed the order incorrectly), the Firm will take steps to collect from the third-party the amount of the error; however, there is no guarantee that the Firm will be successful recuperating such funds, in which case the client will bear the loss.

#### *Principal and Agency Cross-Transactions*

"Principal transactions" are generally defined as transactions where an Investment Adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account.

An "agency cross transaction" is defined as a transaction where a person acts as an Investment Adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. EIIRS is neither registered as, nor is affiliated with, a securities broker-dealer.

#### **Item 13 – Review of Accounts**

Clients' accounts are reviewed by members of the Investment, Operations, Trading and Compliance teams. Daily monitoring of accounts is performed to verify, among other reasons, client transactions, the receipt and disbursement of funds, and compliance with clients' investment guidelines and restrictions.

In addition, the Firm's internal accounting records for each client are reconciled against the clients' custodial statements on a daily or monthly basis by members of the Operations Team.

### *Client Reports*

Clients generally receive written account statements from their respective custodian as well as the Firm on a quarterly basis. The Firm's reports may include portfolio holdings, transactions and performance information.

Clients are encouraged to compare the statements provided by EIIRS to their custodial statements, and notify their custodian and the Firm should discrepancies appear.

See Item 15 for additional information with respect to custody of assets.

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

The Firm has not entered into any arrangement under which it receives any economic benefit, including sales awards or prizes, from a person who is not a client for providing advisory services to clients.

### **Item 15 – Custody**

EIIRS does not retain Custody of any client assets. Separately managed account clients' assets are held by their respective qualified custodian of their own selection. The proprietary mutual funds' assets are held by custodians selected by the respective proprietary mutual fund.

For separately managed accounts, EIIRS statements may vary from custodial statements based on accounting procedures, reporting dates and valuation methodologies of certain securities.

The qualified custodian is responsible for, among other things, opening and maintaining a custody account or accounts in the name of the client and holding and administering all assets of the client as shall be deposited by the client from time to time with and accepted by the custodian. Pursuant to custodial agreements, each custodian will clear the respective clients' securities transactions which are effected through other brokerage firms. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains the client's investment assets.

EIIRS urges clients to carefully review such statements and compare these records to the account statements that EIIRS will provide to you.

## **Item 16 – Investment Discretion**

### *Investment Discretion*

As an investment adviser, EIIRS is granted the discretionary authority pursuant to the investment management agreement with a client to determine which securities and the amounts of securities to be bought or sold, as well as the broker-dealer to be used and the commission rates to be paid.

EIIRS generally receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Subject to the Firm's consent, clients may provide specific investment restrictions and guidelines (e.g., limitations on security exposures). In all cases, however, the Firm exercises such investment discretion in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining the amounts of securities to be bought or sold, EIIRS seeks to comply with the investment policies, limitations and restrictions of the clients.

Investment guidelines and restrictions must be provided to the Firm in writing and must be agreed to by both parties.

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

The Firm has implemented policies and procedures regarding the voting of proxies as required under Rule 206(4)-6 of the Investment Advisers Act.

This Rule generally requires the Firm to (i) adopt policies and procedures reasonably designed to ensure that proxies with respect to securities in the clients' accounts where we exercise voting discretion are voted in the best interest of our clients; (ii) to disclose how information may be obtained on how we vote proxies; and (iii) to maintain records relating to our proxy voting.

Clients may request EIIRS to vote proxies on their behalf. Such delegation of proxy voting authority will be reflected in the written investment management agreement between the client and the Firm.

EII utilizes Glass Lewis & Co. for research analysis with respect to proxy vote items. Generally, the Firm's Proxy Voting Policy is to vote proxies according to Glass Lewis' "Public

*Pension Guidelines”* policy and recommendations except in those instances where the Firm determines to override Glass Lewis’ recommendations based on its own analysis.

From time-to-time, conflicts may arise between EII and clients with respect to proxy voting issues. For example, EII portfolio managers may own securities held by clients and may have a different position than Glass Lewis’ on how to vote proxies for that security. When conflicts appear, the Firm’s policy is to follow Glass Lewis’ recommendation with respect to how to vote the proxy.

Clients may retain the right and responsibility for receiving and voting its own proxies. In such case, the investment management agreement will reflect that the client will retain responsibility to vote proxies.

Clients may obtain a copy of EIIRS’s Proxy Voting Policy upon request. Clients may also obtain information with respect to how the Firm voted proxies on behalf of their account(s) by contacting Michael Meagher, Chief Compliance Officer, at 212-735-9578.

## **Item 18 – Financial Information**

Registered Investment Advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition.

*EIIRS does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. In addition, the Firm has not been the subject of a bankruptcy proceeding.*