

## **Firm Brochure**

(Part 2A of Form ADV)

### **AH Lisanti Capital Growth, LLC**

**608 Fifth Avenue, Suite 301**

**New York, New York 10020**

**Phone: 212 792 6990**

**Fax: 646 649 9080**

**[www.ahlisanti.com](http://www.ahlisanti.com)**

**[info@ahlisanti.com](mailto:info@ahlisanti.com)**

This brochure provides information about the qualifications and business practices of AH Lisanti Capital Growth, LLC. If you have any questions about the contents of this brochure, please contact us at: 212 792 6990, or by email at: [info@ahlisanti.com](mailto:info@ahlisanti.com). 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.

AH Lisanti Capital Growth, LLC is an investment advisor registered with the SEC. Being registered with the SEC does not imply a certain level of skill or training.

Additional information about AH Lisanti Capital Growth, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 31, 2011

# Material Changes

---

## Annual Update

This is A.H. Lisanti Capital Growth, LLC's initial Firm Brochure on Part 2A of Form ADV and therefore there are no material changes required to be disclosed since the last annual update of the Firm Brochure. The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative "plain English" format. The new final rule specifies mandatory sections and organization. Therefore, this Brochure is materially different in structure and requires certain new information that our previous Brochure did not require.

This section of the brochure will be updated annually when material changes occur since the previous release of the Firm Brochure. In the future, this section of the Brochure will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure. We may further provide other ongoing disclosure information about material changes as necessary.

# Table of Contents

<b>Material Changes .....</b>	<b>i</b>
Annual Update .....	i
<b>Advisory Business .....</b>	<b>i</b>
Firm Description .....	i
Principal Owners .....	i
Types of Advisory Services .....	i
Investment Advisory Agreement .....	ii
Assets under Management .....	iii
<b>Fees and Compensation .....</b>	<b>iii</b>
<b>Performance Based Fees and Side by Side Management .....</b>	<b>iv</b>
<b>Types of Clients .....</b>	<b>iv</b>
Description of Types of Clients .....	iv
Conditions for Managing Accounts and Account Minimums .....	v
<b>Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>v</b>
Methods of Analysis .....	v
Investment Strategies .....	vi
Risk of Loss .....	vii
<b>Disciplinary Information .....</b>	<b>viii</b>
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>viii</b>
Affiliations .....	viii
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>ix</b>
Code of Ethics .....	ix
Participation or Interest in Client Transactions .....	xi
Personal Trading .....	xi
<b>Brokerage Practices .....</b>	<b>xii</b>
Investment or Brokerage Discretion .....	xii

<b>Review of Accounts .....</b>	<b>xvii</b>
<b>Client Referrals and Other Compensation.....</b>	<b>xviii</b>
<b>Custody .....</b>	<b>xviii</b>
Account Statements .....	xviii
<b>Investment Discretion.....</b>	<b>xviii</b>
<b>Voting Client Securities.....</b>	<b>xix</b>
<b>Financial Information.....</b>	<b>xx</b>
Financial Condition.....	xx

# Advisory Business

---

## Firm Description

AH Lisanti Capital Growth, LLC (“Lisanti” or the “Adviser” or the “Firm”), a registered investment advisor, was founded in 2003. Lisanti is certified as a Woman-owned Business Enterprise in New York.

Lisanti offers investment advisory services (including investment sub-advisory services), also known as asset management services, on a discretionary basis to corporations, pension and profit sharing plans, employee benefit plans, educational organizations, trusts, endowments and foundations, individuals, and investment companies. AH Lisanti is strictly an investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities.

---

## Principal Owners

Mary Lisanti is a 51% stockholder. Adams Harkness Asset Management (“AHAM”) is a 49% stockholder. The primary business of AHAM is acting as a holding company for its 49% interest in Lisanti and certain passive investment entities.

---

## Types of Advisory Services

Lisanti provides investment supervisory services, also known as asset management services, as follows:

1. To city and state government entities, corporations, pension and profit sharing plans, employee benefit plans, educational organizations, trusts, endowments and foundations, and individuals;
2. To unaffiliated investment advisers that utilize the services of Lisanti on a sub-advisory basis to provide management services to some of their clients; and
3. To registered investment companies.

Collectively, the entities referenced above are referred to herein as (“Clients”), unless otherwise noted.

Lisanti manages the assets of its Clients in accordance with the firm’s small cap aggressive growth equity investment management style, subject to reasonable investment restrictions or other investment guidelines imposed by Clients (“Investment Guidelines”). Each Client is responsible for informing Lisanti of any changes to its Investment Guidelines. Lisanti does not assume any responsibility for the accuracy of the information provided by Clients. *Refer to Investment Discretion for additional information on Conditions for Managing Accounts.*

Lisanti's small cap aggressive growth strategy pursues an aggressive investment objective, primarily investing in the equity securities of smaller, rapidly growing U.S. and foreign companies whose equities are traded on U.S. stock exchanges. Lisanti focuses primarily on seeking to maximize capital appreciation for its Clients. Given its focus, under certain market conditions, a significant portion of Lisanti's strategy can be invested in companies that have newly come public ("Initial Public Offerings" or "IPOs"). Due to the volatile nature of smaller, high growth issues and the risks involved when investing in these types of securities and strategies, the actual return of a Client's account likely will fluctuate and at any point in time be worth more or less than the amount originally invested. *Refer to Methods of Analysis, Investment Strategy, and Risk of Loss for additional information regarding Lisanti's investment strategy.*

---

## **Investment Advisory Agreement**

Lisanti requires that each Client enter into an investment advisory agreement with Lisanti prior to Lisanti's performance of any investment management services for the benefit of the Client. The agreement is a written contract between Lisanti and a Client and sets forth the terms of the portfolio management services to be rendered to the Client and the fees to be paid for such services.

Under the terms of Lisanti's form of the investment advisory agreement ("Agreement"), Lisanti offers investment advice to a Client and manages the cash, securities and other assets which the Client has allocated to Lisanti for investment ("Account"). The Agreement empowers Lisanti, as agent and attorney-in-fact on behalf of an Account, with full power and authority to invest Account assets on a discretionary basis subject to applicable Investment Guidelines.

Pursuant to the Agreement, Lisanti does not maintain custody of securities or other assets contained in an Account. Rather, the custodian of each Account is designated in the Agreement and, under the Agreement, Client agrees to instruct its custodian to accept instructions from Lisanti on behalf of the Account.

Under the Agreement and subject to the duty to obtain best execution for each transaction on behalf of an Account, Lisanti has full discretion to place orders for the execution of transactions with or through brokers, dealers, or banks ("Brokers"). In selecting Brokers, Lisanti may, in compliance with Section 28(e) under the Securities Exchange Act of 1934, incur commissions on transactions in excess of the amount of commission another Broker would charge when Lisanti receives research or execution services from the Brokers.

The Agreement permits a Client to either delegate the responsibility of voting proxies with respect to Account securities to Lisanti or retain the voting responsibility. If proxy voting is delegated to Lisanti, the Agreement requires Lisanti to vote proxies on a client's behalf by employing Lisanti's proxy voting policies and procedures.

Under the Agreement, a Client agrees to hold Lisanti harmless from any liability or expense incurred by reason of any action or decision by Lisanti made under the Agreement, or any failure to act or decide, made in good faith except if losses incurred by a Client result from Lisanti's willful misfeasance, bad faith, or gross negligence or by reason of its reckless disregard of its obligations and duties under the Agreement. The Agreement, however, does not limit a Client's rights under Federal or state law. The Agreement may not be assigned without the Client's consent. Provisions of the agreement may be negotiated on a Client by Client basis.

Certain institutional clients and U.S. registered investment company clients may provide Lisanti with their own contracts instead of assigning the agreement. These contracts may contain provisions different from the provisions Lisanti has in its Agreement.

---

## **Assets under Management**

As of March 31, 2011, Lisanti managed approximately \$306m in assets under management. All of the assets are managed on a discretionary basis.

---

## **Fees and Compensation**

### **Investment Advisory Fees**

Generally, Lisanti charges an annual investment management fee for the advisory services it provides to a Client based on a percentage of the Client's assets under management. Generally, Lisanti's standard investment advisory fee charged to a Client is as follows:

1.00% on the first \$10 million  
0.90% on the next \$15million  
0.80% on the next \$25 million  
0.70% on the next \$50 million, and  
Negotiable above \$100 million.

We bill investment advisory fees quarterly. They are billed after the quarter ends (in arrears) based upon the market value of an Account at the end of the most recently completed calendar quarter. The initial fee for a new Account is prorated based upon the date the Account is opened. In the event an Account terminates prior to the end of a quarter, fees will be prorated based upon the date the account is terminated. Fees due at the date of termination shall be paid by the Client

at or prior to termination, or shortly thereafter, depending upon the terms of the Client's investment advisory agreement. If termination occurs within five days after a Client enters into the advisory arrangement, no fee is incurred.

Advisory fees are billed directly to Clients. Lisanti does not have the ability to directly debit fees from an Account.

Investment advisory fees may vary from Client to Client. Lisanti reserves the right to negotiate investment advisory fees with each Client, and may charge a higher or lower fee than the fee described herein. Lisanti may waive or reduce the advisory fee with respect to any Client. Some of the factors relevant to charging fees different from the standard account fee stated above are account size and the nature of the relationship between a Client and Lisanti.

In addition to Lisanti's advisory fee, each Client incurs custodial account fees, brokerage and other transaction costs in connection with Lisanti's management of their Account(s). *Refer to Brokerage Practices for additional information regarding brokerage costs.*

To the extent that a Client invests in a pooled investment vehicle such as a mutual fund or an exchange-traded fund, the Client will indirectly bear fees and expenses charged by the underlying pooled investment.

Management fees are billed directly to Clients. Lisanti does not have the ability to directly debit fees from a Client's account.

## **Performance Based Fees and Side by Side Management**

Lisanti does not charge performance-based fees. Since all accounts managed by Lisanti are charged an asset-based fee, Lisanti is not in a position to favor performance-based fee accounts over other accounts.

## **Types of Clients**

---

### **Description of Types of Clients**

Lisanti offers investment advisory services (including investment sub-advisory services), also known as asset management services, on a discretionary basis to corporations, pension and profit sharing plans, employee benefit plans, educational organizations, trusts, endowments and foundations, individuals, and investment companies and investment advisers. AH Lisanti is strictly an investment management firm.

Client relationships vary in scope and length of service.



---

## Conditions for Managing Accounts and Account Minimums

Lisanti reserves the right to decline any potential Client. Prior to Lisanti's performance of investment advisory services, Lisanti requires all of its Clients to enter into a written investment advisory agreement. *Refer to Advisory Business – Investment Advisory Agreement for additional information regarding Lisanti's investment advisory agreements.* Lisanti generally has a minimum account size of \$5.0 million. Lisanti reserves the right to waive the account minimum for a particular account, determined on a case by case basis. Otherwise, Lisanti generally imposes no additional conditions on the establishment or maintenance of Clients' accounts.

There may be times when certain restrictions are placed by a Client, which prevents Lisanti from accepting or continuing to manage the account. Generally, Lisanti reserves the right not to accept and/or terminate management of an Account if it feels that the Client imposed restrictions would limit or prevent it from effectively executing and/or maintaining its investment strategy.

Lisanti encourages Clients to carefully consider committing only those funds that can be invested on a long-term basis, usually a minimum of three to five years, and that can be subject to the volatility of investments in equity securities of smaller, high growth companies.

---

## Methods of Analysis, Investment Strategies and Risk of Loss

---

### Methods of Analysis

**Database Screening** Lisanti applies a quantitative screening process to the universe of small capitalization companies to identify those companies with fundamental strengths such as:

- strong balance sheets
- good cash flow
- high returns on equity
- strong or improving fundamentals
- new products and/or unique business strategies

Lisanti also looks for companies with positive catalysts, such as new management, which may provide for a potential acceleration in the growth rate of the company. Other factors identified through the screening process include:

- high management ownership in the company
- low institutional ownership

A valuation screen is also used to determine if the price/earnings ratio in relation to the company's underlying growth rate is reasonable.

**Fundamental Research** Lisanti's fundamental research focuses on identifying several types of companies that Lisanti believes offer promising growth potential including:

- small, fast growing companies that offer innovative products, services or technologies to a rapidly expanding marketplace
- companies experiencing a major change which is expected to produce advantageous results, such as new management, products or technologies, restructuring or reorganization, or merger and acquisition

Lisanti utilizes meetings with company management and analysts, research at industry trade shows and conferences, IPO roadshows, and discussions with customers and competitors, to help identify companies whose stock price may not reflect the rate of growth the company can maintain and/or those whose stock price does not yet reflect the positive changes that have occurred because they have not yet appeared in the financial results. Lisanti also utilizes written research by various brokerage firms, and uses various standard databases available to institutional investors, such as Bloomberg, Bridge and William O'Neil.

---

## **Investment Strategies**

The only investment strategy used to invest Account assets is Lisanti's small cap growth strategy which involves the purchase of equity exchange-listed securities and/or equity securities that trade over the counter. In general, securities purchased are equity securities of smaller, lesser-known companies whose stocks are traded in the U.S. markets. Lisanti normally invests in companies that Lisanti believes are in an early stage or transitional point in their development and have above average prospects for growth, including initial public offerings. Smaller companies are generally defined by Lisanti as those with market capitalizations below \$2 billion at time of initial purchase.

Lisanti's investment process focuses on two key areas—security selection and portfolio construction. Lisanti uses a disciplined investment process that includes the following components:

(1) **Security Selection.** Based on the methods of analysis described above, Lisanti focuses on identifying several types of companies that it believes offer promising growth potential, including those small capitalization companies with fundamental strengths and/or positive catalysts, such as new management, which may provide for a potential acceleration in the growth rate of the company. Once purchased, portfolio holdings are monitored closely, and new information is evaluated relative to the original reason for investing.

(2) **Portfolio Construction: Themes.** Lisanti intends its investments to reflect what Lisanti believes to be the major social, economic and technological trends (collectively, "Themes") that will shape the future for business and commerce over the next three to five years. These Themes will provide a framework for identifying the industries and companies in which Lisanti will invest. While sector weightings are monitored, portfolios are generally constructed around 12-15

themes, such as The New Consumer, The Ubiquitous Semiconductor and Managing the Information Age.

Lisanti may invest in initial public offerings and trade frequently. Securities in the portfolio may be sold when they exhibit deteriorating fundamentals, changing circumstances affect the original reasons for the investment, their valuation target is achieved or, in Lisanti's opinion, a more attractive alternative exists.

Because Lisanti invests in small companies that it believes offer promising growth potential, including small, fast growing companies that offer innovative products, services or technologies to a rapidly expanding marketplace, companies going public ("IPOs") could be candidates for inclusion in the portfolios. Under certain market conditions, IPOs and newly public companies could comprise a significant portion of Lisanti's investments. Additionally, under certain market conditions, from time to time, Lisanti may engage in active short-term trading to take advantage of price movements affecting individual issues, groups of issues, or markets.

---

## **Risk of Loss**

Investing in securities involves risk of loss that each Client should be prepared to bear. A Client's investment portfolio will fluctuate in value as market conditions change, the Client could lose all or portion of the value of the investment portfolio over short or even long periods of time and the Client's Account may underperform other investments. Investors in Lisanti's small cap growth strategy may face the following investment risks, among others:

- **Market Event Risk:** Unprecedented turbulence in the financial markets and reduced liquidity in equity, credit and fixed income markets may negatively affect issuers worldwide, which could have an adverse effect on this strategy.
- **Equity Risk:** The price of an equity security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events. In this case, again, smaller high growth companies' stock prices may decline more than the general market. In addition, the value of a security may decline for a number of reasons which directly relate to the issuer of a security, such as management performance, financial leverage and reduced demand for the issuer's goods or services.
- **Growth Company Risk.** Securities of growth companies can be more sensitive to the company's earnings and more volatile than the market in general. This can be particularly true of IPO's, which, as mentioned above, can at times constitute a significant portion of the Client's investments.
- **Smaller Company Risk:** Securities of smaller companies may be more volatile than securities of larger companies and as a result, the price of smaller companies may decline more in response to selling pressure.. The equity

securities of smaller, higher growth companies, in which Lisanti invests, are generally less liquid than the equity securities of larger, more established companies.

- **Portfolio Turnover Risk.** A high level of portfolio turnover may have a negative impact on performance by increasing transaction costs. Lisanti can engage in frequent trading on occasion, if it believes it is in the client's best interests and in the implementation of its strategy. This frequent trading can affect performance through increased brokerage and other transaction costs, such as increased custody costs.

## **Disciplinary Information**

There are no legal or disciplinary events involving Lisanti its officers and employees that are material to a client or a prospective client's evaluation of Lisanti's advisory business or the integrity of Lisanti's management.

## **Other Financial Industry Activities and Affiliations**

---

### **Affiliations**

Neither Lisanti nor its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither Lisanti nor its management persons are registered, or have an application pending to register, as a futures commission merchant, a commodity pool operator, a commodity trading advisor, or an associated person of any of these entities.

Lisanti does not recommend or select other investment advisers for Accounts.

Lisanti currently acts as the investment adviser to the Adams Harkness Small Cap Growth Fund, ("AH Small Cap Growth Fund"), a series of Forum Funds, a registered open-end investment company (mutual fund). Subject to the general control of the fund's Board of Trustees, Lisanti makes investment decisions for the AH Small Cap Growth Fund. As the investment adviser to the AH Small Cap Growth Fund, Lisanti is considered an "affiliate" of the fund under applicable law. Lisanti does not use the AH Small Cap Growth Fund as an investment vehicle for other Client assets. The prospectus and statement of additional information for the AH Small Cap Growth Fund contain important information concerning the Fund's investment objective, strategies, policies, and risks and are available on Lisanti's website

or by calling or writing the fund's transfer agent at 1-800-441-7031 or Adams Harkness Small Cap Growth Fund, P. O. Box 588, Portland, ME 04112.

AHAM is a 49% interest holder of Lisanti, and the remaining 51% is held by Mary Lisanti, who serves as the sole executive officer and managing member of Lisanti and who maintains voting control of Lisanti. The primary business of AHAM is acting as a holding company for its 49% interest in Lisanti and certain passive investment entities. Due to AHAM's ownership interest in Lisanti, Lisanti is affiliated with several limited partnerships. Lisanti does not: (1) conduct joint operations with any of these affiliated partnerships; (2) provide investment advisory services to any of these affiliated partnerships; and (3) utilize these affiliated partnerships as an investment vehicle for Accounts.

In January, 2006, AHAM's former affiliated broker/dealer, Canaccord Genuity Inc. ("CGI") (formerly Canaccord Adams Inc.) was acquired by an unaffiliated company. The primary business of Canaccord Genuity Inc. is as a broker dealer (registered with the SEC and FINRA) and, as such, it provides research and related activities to its institutional client base.

Although Lisanti and CGI are not affiliated companies at present, the two companies share certain back office resources, primarily accounting, payroll and information technology services and support, through a service agreement. Lisanti pays CGI for the services it provides through the service agreement. Lisanti believes that the price it pays CGI represents a price similar to what it would pay to any other provider of such service. Under this service agreement, Lisanti may owe CGI monies which, from time to time, may be significant. Lisanti may also utilize CGI in its capacity as a broker or dealer to execute transactions in Accounts and Lisanti may also obtain research from CGI regarding companies for which it provides research coverage.

In determining whether or not to execute Client trades through CGI on behalf of Accounts, Lisanti follows its procedures for best execution and holds CGI to the same standards as its other broker dealers. Additionally, to address the apparent conflict of interest resulting from the collective relationships Lisanti maintains with CGI, Lisanti goes through an extra level of diligence with regard to best execution of CGI trades as part of the firm's general best execution procedures. *Refer to Brokerage Practices for addition information regarding Lisanti's best execution practices.*

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

---

### **Code of Ethics**

Lisanti has a code of ethics and procedures, which is referred to in this document as "the code". The code stipulates that Clients come first and therefore trading of securities by employees is restricted to prevent interference with our Client's opportunities to make money. Under our

code, employees must place the interests of Clients ahead of their own personal financial interests and therefore are also required to avoid any actual or apparent conflicts of interest with Clients. Protections against conflicts of interest include:

- Prohibition on the purchase or sale of securities while in possession of confidential or material non-public information.
- Prohibition against employees abusing their position of trust and responsibility in any way for personal gain.
- Prohibition on employees “front running” Client trades by trading in securities based on information regarding intended Client transactions.
- Requirement that employees present all investment ideas suitable for Clients to the firm first before engaging in a personal transaction based on such ideas.
- Trading in all small cap high growth stocks by employees is discouraged but not forbidden.
- Strict conditions placed on when and how employees may engage in personal stock transactions

Subject to certain exceptions, employee transactions require pre-approval from the Compliance Supervisor of all securities and options transactions by employees. Generally, these transactions will be rejected by the Compliance Supervisor if they are, or are being considered, for purchase or sale for Clients accounts or are held by a Client Account. Additional trading conditions require:

- Certain employees, including the Portfolio Managers to wait a certain number of days before transacting in certain securities after Client transaction in the securities.
- Employees who purchase shares AH Small Cap Growth Fund to hold those shares for at least 90 days (1 year for Portfolio Manager).

To facilitate the monitoring of employee compliance with applicable personal trading restrictions, employees are required to report securities holdings and investment transactions on a quarterly and annual basis for review by the Compliance Supervisor

Employees are required to report any knowledge of violations of the code of ethics to the Compliance Supervisor.

Any employee violating Lisanti's code may be subject to sanctions, including but not limited to a warning or other entry in the employee's personnel records, disgorgement of profits obtained in connection with a violation, the imposition of fines, restrictions on future personal trading, suspension, demotion, termination of employment or referral to civil or criminal authorities

A copy of the AH Lisanti Code of Ethics and Procedures can be obtained by calling us at 1-212-792-6990 or emailing us at [info@ahlisanti.com](mailto:info@ahlisanti.com).

---

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

If Lisanti's employees buy or sell securities for their own personal accounts that the firm buys or sells for Accounts, the employees are required to follow specific procedures as outlined in the Code. The procedures regarding personal trading include: pre-clearing all trades in Covered Securities (as defined in the Code), including shares of AH Small Cap Growth Fund, and the submission of periodic holdings and transactional reports. *Refer to Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – Code of Ethics.*

The Code also provides that investments in any affiliated registered investment companies, specifically the AH Small Cap Growth Fund, made by employees are subject to a holding period of ninety days. The primary portfolio manager of the AH Small Cap Growth Fund is subject to a one-year holding period on any investment in the fund. A senior member of the Compliance Department may waive holding periods on a case-by-case basis through Lisanti's pre-clearance process when the liquidation of the fund's shares does not present a conflict of interest.

---

## **Personal Trading**

All employees of Lisanti must obtain Lisanti's pre-approval of all personal transactions in Covered Securities. While trading in an employee's personal accounts is permitted, personal trading in securities in the small, high growth arena in which the firm invests for its clients is discouraged, although not forbidden. Requests for trade approval are reviewed for, among other things, orders that may involve potential conflicts. If there is a Client and employee order for the same security on the trade desk, the Client order is executed first. An employee may not buy or sell a Covered Security, for any Account in which he/she has a direct or indirect beneficial ownership, if that security is held by or to be acquired for an Account within three business days before and three business days after a Client's transaction in that Covered Security.

The primary portfolio manager of each Account is prohibited from buying or selling a Covered Security for any personal account in which the portfolio manager has any direct or indirect beneficial ownership for seven business days before and three business days after the Account's transaction in that Covered Security.

## Brokerage Practices

---

### Investment or Brokerage Discretion

Lisanti's investment advisory agreements generally afford it discretion and Lisanti generally determines the securities to be purchased and sold; the amount of securities purchased and sold; the identity of the broker-dealer through which the transaction will be executed; the commission rates paid to effect the transactions, and whether the Client's transactions should be combined with those of other Clients and traded as a "block".

Lisanti's authority may be subject to conditions imposed by the Client. Examples of such conditions include:

- 1) where the Client restricts or prohibits transaction in securities of a specific company or industry or specific types of securities, such as ADRs;
- 2) where Clients direct that transactions be effected through specific broker-dealers ("Directed Brokerage"). One client requires, subject to attaining best execution, that a specified portion of its transactions be executed through certain categories of broker-dealers, including minority owned and women-owned broker-dealers. Lisanti has adopted a trade rotation system such that Accounts subject to no restrictions with respect to brokerage and Accounts that require the use of certain brokers alternate trading order priority. In light of the limited liquidity of many small cap stocks, order priority can be expected to affect pricing. Additionally, some of Lisanti's clients direct all brokerage. *Refer to Directed Brokerage for additional information regarding Lisanti's directed brokerage practices.*

### How Brokers Are Selected:

**Non-Directed Brokerage Clients.** As an investment adviser, Lisanti has a fiduciary obligation to obtain the most favorable execution available for Client transactions. Lisanti selects broker-dealers to execute Client transactions based upon but not limited to a broker-dealer's execution capabilities, trading expertise, and the quality and availability of research. As a result, Lisanti may select a broker to effect a transaction consistent with its best execution obligation even though other brokers may charge commission rates that are lower than those charged by the broker selected. Accordingly, transactions for Accounts will not always be executed at the lowest available commission rates, and in some instances the commission expenses may be materially greater. As a general rule, Lisanti "pays up" for research. *Refer to Soft Dollar Brokerage for further information regarding Lisanti's soft dollar practices.*



Lisanti maintains a list of brokers that meet its standards with respect to execution and research capabilities. The portfolio manager and trader periodically review the amount of commissions paid to these brokers. Lisanti has established a semi-annual formal voting process among its research and portfolio management staff to evaluate the execution and research services provided by the brokers executing Client portfolio transactions. This vote is taken into account in evaluating individual broker-dealers overall performance which is done annually. Broker-dealers may be removed from Lisanti's "approved" broker list if Lisanti believes that the broker-dealer is not providing an adequate level of service. New broker-dealers may be added to the list if the firm believes that the broker-dealer offers research and trading capabilities which would be of value in managing Accounts.

**Directed Brokerage.** Transactions for directed accounts are normally executed after transactions for non-directed accounts. As a result, transactions for directed accounts may not receive as favorable an execution as transactions for non-directed accounts. If a client directs Lisanti to use a different broker or dealer than one selected by Lisanti, it may involve the following disadvantages:

- Lisanti's ability to negotiate commissions or other terms on behalf of directed brokerage clients may be impaired
- Lisanti's opportunities to obtain lower transaction costs and better prices through aggregating or "bunching" orders or volume discounts may be limited
- clients may lose the benefit of Lisanti's experience in selecting brokers who are able to execute difficult transactions efficiently
- clients may receive less favorable prices on securities transactions to the extent Lisanti must place transactions for directed brokerage clients after placing bunched transactions.

In these circumstances, a disparity in commission charges may exist among Lisanti's Clients and the direction of trades to one broker or dealer could result in failure to receive the best execution for some transactions.

Subject to the foregoing, a Client's designation of a broker and the negotiated rate of commission agreed upon between the two parties will generally be honored.

**Use of Soft Dollars to Obtain Brokerage and Research Services.** Subject to the requirements of seeking best execution for transactions, and also subject to the criteria of Section 28(e) of the Securities and Exchange Act of 1934 (“Section 28(e)”), Lisanti may, in circumstances in which it has brokerage discretion and execution is comparable, give preference to a broker who has provided execution and research services to Lisanti (a “Research Broker”).

Eligible brokerage services may include, among other things: (1) services incidental to transaction execution such as clearance, settlement and custody; (2) post trade services such as matching trade information, exchanges of messages among broker-dealers, custodians and other institutions relating to a trade and routing settlement instructions; communications of allocation instructions been institution; (3) communication services related to execution, clearing and settlement such as connectivity service between an investment adviser, broker-dealer and other relevant parties (including dedicated lines between broker-dealer and investment adviser’s order management system; and (4) software such as trading software to route orders to market centers.

Research services may include, among other things: (1) general economic, political, business and market information; (2) industry and company reviews; (3) evaluations of securities and portfolio strategies and transactions; (4) recommendations as to the purchase and sale of securities and other portfolio transactions; (5), technical analysis of various aspects of the securities markets; (6) financial, industry and trade publications; (7) news and information services; (8) pricing and quotation services; and (9) research oriented computer software, data bases and services. Such research services can be received in the form of written reports, telephone conversations, personal meetings with security analysts, and attendance at research conferences.

The brokerage and research services provided by a Research Broker may be proprietary and/or provided by a third party, which means the brokerage or research services originates from a party independent from the broker providing the execution services. When Lisanti uses client brokerage commissions to obtain execution or research services, Lisanti receives a benefit because it does not have to pay for the brokerage or research products or services or produce research directly.

In selecting a Research Broker, Lisanti may pay a Research Broker a commission in excess of the amount of commission another broker would have charged, in recognition of the value of the brokerage and/or research services provided by the Research Broker. This practice is commonly referred to as “soft dollars”. In selecting such a broker to execute Client portfolio transactions,, Lisanti will make a good faith determination that the amount of commission is reasonable in relation to the value of the brokerage or research services received. Lisanti will allocate brokerage transactions to these Research Brokers at such prices and commission rates as Lisanti believes are in the best interest of its Clients. During the fiscal year ended December 31, 2010, Lisanti received the following research services that were acquired wholly or in part with soft dollars: third party research on the small capitalization market, including broker-dealer research; third party research on specific small cap stock ideas and events, including broker-dealer research; third party research on the IPO market, including specific research reports on companies coming public; research on broad trends in the economy and society and their potential impact on investing; pre trade analytics; and broad market news and information

sources, pricing and quotation services, and research oriented computer software, databases and services.

Brokerage and research services provided by a Research Broker may be used in servicing all of Lisanti's accounts although not such all Client accounts affected portfolio transactions through and paid commissions to the Research Broker. Accordingly, accounts that direct brokerage and therefore restrict Lisanti's ability to use commissions to pay for brokerage and research services are expected to benefit from such services.

While the receipt of research services through the use of soft dollars from any broker executing transactions for Clients will not result in a reduction of Lisanti's customary and normal research activities, the receipt of such research may be deemed an economic benefit to Lisanti and may create a conflict of interest between Lisanti and its Clients. Further, the receipt of brokerage and research services may create an incentive for Lisanti to use Research Brokers to execute Client transactions rather than those that may be in a position to provide more favorable execution services. As an Investment Adviser, Lisanti has a fiduciary obligation to obtain the best execution available for Client transactions. *Refer to Oversight of Trading Activity for additional information regarding monitoring of broker execution, including soft dollar arrangements.*

Certain research services are utilized for both research and nonresearch purposes, herein referred to as “mixed use”. In mixed use situations, Lisanti allocates costs to soft (use of Client commissions) versus hard dollars (cash payments by Lisanti) based upon research versus non-research usage. In accordance with regulations, Lisanti is required to keep books and records of its mixed use allocation computations to support reasonableness of its determination. In making these allocations, a potential conflict of interest may exist by reason of Lisanti’s allocation of the costs of such services and benefits between those that primarily benefit Lisanti and those that primarily benefit Lisanti’s clients. Lisanti reviews its allocation procedures annually and the allocation can change, based on the change in Lisanti’s business and its use of the product or service.

**Oversight of Trading Activity.** Trading is monitored on a daily, monthly, quarterly and annual basis. Trade monitoring includes, but is not limited to:

- A daily review of transaction activity for accuracy, best execution and the appropriateness of commissions charged and trade allocation;
- A monthly review of randomly selected transactions of each of the top 5 broker-dealers (evaluated quarterly) for best execution. (Because of its business relationship with CGI, if CGI is not one of the top 5 broker/dealers, the firm will still review 2 randomly selected trades per month executed through CGI to spot check for best execution);
- A monthly review of soft dollar invoices to verify that soft dollar services have been pre-approved by compliance personnel and that they are eligible soft dollar services under Section 28(e) of the Securities Exchange Act;

- A quarterly review of certain SEC Rule 606 broker/dealer order execution data for Lisanti's top 5 broker-dealers (evaluated quarterly). SEC Rule 606 ("Rule") requires all broker-dealers that route orders in equity and option securities to make available quarterly reports that present a general overview of their routing practices. The reports must identify the significant venues to which customer orders were routed for execution during the applicable quarter and disclose the material aspects of the broker-dealer's relationship with such venues. In addition, the Rule requires broker-dealers to disclose, on customer request, the venues to which the customer's individual orders were routed.
- A quarterly review of account performance to identify the cause of performance deviations in similarly managed accounts including deviations resulting from trade allocations; and
- An annual comprehensive review of all Research brokers and broker-dealers (semi-annually for CGI due to services arrangements therewith ) utilized to execute client transactions which includes a meeting with applicable Research broker/broker-dealer representatives. *Refer to Affiliations for additional information regarding Lisanti's methods of reviewing CGI due to service arrangements.*

Lisanti's Best Execution & Soft Dollar Committee meets quarterly to review and discuss best execution reviews and soft dollar relationships. Annually the Committee reviews transaction costs in relation to services received and the rationale of the allocation of costs for "mixed use" products to determine reasonableness of such transaction costs and allocations.

**Bunching of Orders and Allocation.** Lisanti generally aggregates or "bunches" orders for Clients in circumstances in which Lisanti, in its discretion, believes it is in the interests of efficient and effective execution to attempt to execute the trade orders as one or more block trades. This may give rise to actual or potential conflicts of interest among Client accounts that are part of the "bunch", particularly if the order is only partially filled. In order to address these conflicts, Lisanti has adopted certain policies and procedures ("Trade Allocation Policy") that it follows when aggregating trades in an effort to provide an objective and equitable method of trade allocation so that all clients are treated fairly.

While the details of its policy are laid out in its Trade Allocation Policy, the basic objectives of these policies and procedures are as follows:

- Lisanti will only aggregate trades when it believes that such aggregations are consistent with its duty to seek best execution for its clients.
- No client account will be favored over any other client account.
- Each account that participates in an aggregated transaction shall participate at the average of the executed share price for that security, with all transactions costs shared on a pro rata basis. In the event of a partial execution, all accounts in the

“bunch” shall be allocated shares on a pro rata basis based on the assets in the account.

Lisanti may, from time to time, when consistent with a Client’s investment objectives, strategy and restrictions, purchase a security in an initial public offering (“IPO”). When this occurs, Lisanti follows its Trade Allocation Policy, allocating IPO shares among participating accounts in an equitable manner so as not to give one Client preference over another. If Lisanti does not receive a full allocation, the shares will be allocated in a pro-rata manner based on assets under management. Clients with directed brokerage may not participate in all IPOs, as the directed broker may not be part of the selling syndicate and therefore the client will not be able to participate.

## **Review of Accounts**

---

### **Account Reviews**

Lisanti reviews transactions in Accounts on a daily basis to ensure compliance with applicable Investment Guidelines: The Compliance Officer monitors all new investments prior to purchase for compliance with Client Investment Guidelines The Portfolio Manager reviews all Accounts daily for cash allocations and aggregate positions. Holdings in Accounts are monitored on an on-going basis as to events affecting the outlook for the security by the appropriate research analyst and the Portfolio Manager.

Additionally, at least monthly, each Account is reviewed for sector concentrations and positions by the Portfolio Manager. Additional reviews are completed by the Chief Compliance Officer and the Associate, for adherence to Investment Guidelines and restrictions on a monthly basis.

Detailed account analyses are completed as required by Clients pursuant to applicable investment advisory agreements. Such reports include a review of the portfolio composition, portfolio holdings, individual gains and losses and year-to-date and current Account performance and factors affecting such performance.

### **Client Reporting**

Clients receive periodic communications on a quarterly or more frequent basis, pursuant to applicable investment advisory agreement provisions or in response to a separate Client request. These communications contain information regarding the implementation of Lisanti’s small cap aggressive growth strategy, Account performance information, and discussions of which sectors a Client’s Account is overweight or underweight and why. The communications may also include discussions regarding Lisanti’s general view of the stock market and issues which it believes may affect a Client’s portfolio positioning in the future.

Typically, in the fourth quarter communication, but sometimes in a separate communication, a Client receives a more comprehensive communication regarding the performance of the Client

Account, implementation of the investment strategy, including discussions of particular sectors and /or holdings insofar as they contributed to or detracted from performance; the major macroeconomic events of the last year, in Lisanti's opinion, and the major challenges and opportunities that might present themselves in the future; and Lisanti's positioning of the Client's Account in response to or anticipation of those events. These communications may also include the firm's outlook on the stock market or economic events and may contain forward looking statements.

## **Client Referrals and Other Compensation**

On occasion, Lisanti will enter into contractual agreements with individuals and organizations (hereafter referred to as "Solicitors") who solicit clients for Lisanti. All such agreements are in writing. While the specific terms in each agreement may differ, generally a Solicitor's compensation is based upon new referrals up to a stated percentage of the estimated first year's fee (which is in turn based upon the client's initial dollar amount of assets under management). Solicitors may also receive retainer fees or a one-time initial fee not based on assets under management. The compensation is not a factor in determining the percentage Lisanti will charge for its investment management fee, nor do Clients pay a higher advisory fee due to being referred by a Solicitor.

Solicitors are required to furnish each potential client with (i) a copy of Lisanti's Form ADV Part 2 as required by Rule 204-3 under the Advisers Act and (ii) a disclosure statement of the Solicitor's status as required by Rule 206(4)-3(b) under the Advisers Act. Lisanti uses only registered broker/dealers to solicit Government entities.

## **Custody**

---

### **Account Statements**

Each Client designates a bank or brokerage firm to hold Account assets. Lisanti is not a broker-dealer and does not maintain possession of Client assets, nor does it accept custody of Client assets. Our Clients' assets are housed in nationally recognized banks or brokerage firms, which are Qualified Custodians. The designated custodian is required to provide a Client, on at least a quarterly basis, statements including information on the Client's securities and transactions. Clients are urged to compare the account statements received directly from their custodians to the reports provided by Lisanti.

## **Investment Discretion**

Lisanti's investment advisory agreement with a Client generally provides Lisanti with discretionary authority over Client portfolio assets through a limited power of attorney. Under this power of attorney, Lisanti generally determines the securities that are purchased and sold, the amount of securities purchased and sold, the identity of the broker-dealer through which the transaction will be executed, the commission rates paid to effect the transactions, and whether a Client's transactions should be combined with those of other clients and traded as a "block". Currently, all of Lisanti's clients are managed on a discretionary basis.

Lisanti's authority may be subject to conditions imposed by a Client, including Client imposed Investment Guidelines and Client directions that transactions be effected through specific brokers and dealers.

## **Voting Client Securities**

### **Proxy Voting**

In recognition of the fiduciary obligation that Lisanti has to its Clients, Lisanti has developed a proxy voting policy that seeks to promote effective corporate governance structures. The policy seeks to promote general corporate responsibility, while also seeking to create and preserve economic value. To implement its proxy voting policy, Lisanti has developed proxy voting guidelines and procedures which seek to ensure that individual proxy voting decisions reflect Lisanti's proxy voting philosophy and positively affect the long term value of Client assets.

A Proxy Committee has been formed by Lisanti to oversee Lisanti's proxy voting program. In addition, Lisanti has designated "Proxy Administrators" who are responsible for monitoring corporate actions, making voting decisions and ensuring that proxies are submitted in a timely manner. In order to facilitate the proxy voting process, Lisanti has contracted with ISS, a subsidiary of MSCI Inc. to vote proxies for Lisanti's accounts on Lisanti's behalf. ISS provides Lisanti with proxy analyses and voting recommendations, vote execution according to Lisanti's proxy voting guidelines, and provides quarterly reporting indicating how individual votes have been cast.

The Proxy Administrators will periodically review ISS's recommendations and may override individual recommendations in certain cases. Vote overrides could potentially occur in instances where Lisanti has obtained additional information regarding a company committing to undertaking specific positive corporate governance changes. In addition, there may be instances where the Proxy Administrators determine that it is in the best economic interests of Clients to abstain from voting at individual shareholder meetings, such as in instances where foreign proxy issuers impose unreasonable or expensive voting or holding requirements or when the costs to effect a vote would be uneconomic relative to the value of the Client's investment in the issuer.

Application of the Lisanti proxy voting guidelines to vote Client proxies should in most instances adequately address possible conflicts of interest since the voting guidelines are pre-determined by Lisanti's Proxy Committee based upon recommendations from ISS, an independent third party. In cases where the Proxy Committee has determined that there may be a material conflict of interest regarding a particular security, Lisanti will default to ISS's voting recommendations

for that proposal and will not have the ability to override the recommendations. When Lisanti votes in a manner that would deviate from Lisanti's proxy voting guidelines, the Proxy Committee will review all such proxy votes in order to determine whether the Proxy Administrators' voting rationale appears reasonable.

There are some clients in which Lisanti does not have the authority to vote proxies, which is confirmed in writing by such Clients. The custodian will provide the proxy records directly to the Client and the Client may contact Lisanti should they have any questions on their proxies.

Lisanti reviews its proxy voting policy, guidelines and procedures on an annual basis to take into account the latest trends in corporate governance.

A copy of AH Lisanti's proxy voting policy and procedures and information on how we voted Client's proxies may be obtained by telephoning us at 1-212-792-6990 or emailing us at [info@ahlisanti.com](mailto:info@ahlisanti.com).

## **Financial Information**

---

### **Financial Condition**

Lisanti is not subject to a financial condition that likely will impair our ability to meet contractual commitments to Clients and it has not been the subject of a bankruptcy petition at any time during the past ten (10) years.

A balance sheet is not required to be provided.





