

FIRM BROCHURE
(Part 2A of Form ADV)

March 31, 2013

Nicholas Investment Partners

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Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Nicholas Investment Partners (“Nicholas”). If you have any questions about the contents of this Brochure, please contact us at (858) 759-4545 and/or www.nicpartners.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Nicholas is registered as an investment adviser with Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Nicholas is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2: Material Changes

The brochure has the following material changes:

Item 11 had been revised to eliminate the de minimis exemption for personal securities transactions. All personal transactions are now subject to pre-clearance by the CCO/CIO.

Item 17 was updated to include the firm's policy on class action lawsuits

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Description of Firm and Principal Owners

Nicholas Investment Partners, LP ("Nicholas"), headquartered in Rancho Santa Fe, California, is an investment management firm specializing in small-mid cap and convertibles investing, founded in 2006. Nicholas currently is registered with the Securities and Exchange Commission ("SEC") as an investment adviser and organized under the laws of the State of Delaware as a Limited Partnership ("LP").

Nicholas is 100% employee-owned by the following professionals:

Catherine Somhegyi Nicholas, Managing Partner - Chief Investment Officer (>25 %): As Chief Investment Officer, Catherine leads the investment team and is responsible for the strategic development and day-to-day implementation of investment research, portfolio management and risk management. Catherine is the key decision-maker for US Growth Equity and US Small Cap strategies and the backup for Convertibles.

Art Nicholas, Senior Partner (>25%): Primarily responsible for general financial market research and business management. He is not involved in the day-to-day stock selection process.

John Wylie, Partner - Portfolio Manager (<25%): John is the lead portfolio manager for Convertibles and Convertible Arbitrage, mostly issued by small to mid-cap companies. John is also the backup for US Small Cap and US Growth Equity strategies.

Laura DeMarco, Partner - Director of Client Service and Marketing (<25%): Responsible for the strategic development and implementation of the firm's client service and marketing.

Tammy Wiseman, Partner - Marketing Manager (<25%): Responsible for the implementation of the firm's client service and marketing.

Chris Siriani, Partner - Chief Compliance Officer/COO (<25%): Oversees the operational management of the firm including investment operations, technology and finance. He also serves as the firm's Chief Compliance Officer responsible for the establishment and enforcement of the firm's compliance program, ensuring adherence to client guidelines and regulatory requirements.

Jennifer Roper, Partner - Chief Administrative Officer (<25%): Directs the financial management of the firm and chairs the Compliance Committee.

A 1% ownership interest in the firm is held by Nicholas Investment Partners, LLC, which is the General Partner of Nicholas Investment Partners, L.P. Nicholas Investment Partners LLC is 51% owned by Catherine Nicholas and 49% by Art Nicholas.

As of December 31, 2012 our total discretionary assets under management were approximately \$880,100,000. In addition, we advised and additional \$15,200,000 in non-discretionary assets though model portfolios provided to a Program Sponsor of Unified Managed Accounts (discussed below).

Investment Advisory Services Offered

Nicholas offers discretionary and non-discretionary investment management services to various clients including institutional separate accounts, trust, estates, individuals, registered investment companies, private funds and wrap programs.

Institutional and Other Separate accounts

Nicholas's institutional separate accounts are generally managed in one of four strategies, the fees and terms of which are negotiated with Nicholas and its clients. Nicholas will accommodate client specific investment restrictions which are generally outlined in the individual investment management agreements or other documents outlining the investment objectives of the account.

US Small Cap: Generally invests in US securities whose issuers have a market capitalization within the range of the small-cap growth benchmark, the Russell 2000 Growth Index.

US Growth Equity: Generally invests in US securities whose issuers have a market capitalization within the range of the mid-cap growth benchmark, the Russell Midcap Growth Index.

Convertibles: Typically invests in US dollar denominated convertible and preferred securities.

Convertible Arbitrage: Invests primarily in the equities, convertible bonds and corporate debt of US companies. Hedging strategies primarily use equity securities but may include debt obligations, options and market baskets, including exchange traded funds (ETFs).

Nicholas manages client assets on a discretionary basis based upon the client's selected strategy and their particular investment objectives and other reasonable restrictions as outlined by the client in an investment policy statement or investment management agreement. The client is responsible for informing Nicholas of any changes to the client's investment objectives, individual needs and/or restrictions. In addition, Nicholas does not assume any responsibility for the accuracy of the information provided by clients.

Clients establishing separate accounts may deposit their funds with either a brokerage firm or a custodian bank of their choice.

Nicholas also manages several accounts for Nicholas's principals and their families according to customized investment guidelines. In some cases these accounts are traded along-side of client portfolios in similar strategies. In these cases, the accounts are generally traded in a block transaction ensuring all eligible accounts receive the same average price, execution and service. Item 11 discusses these accounts in more detail.

Registered Investment Companies and Private Funds

Nicholas provides investment adviser services, as a sub-adviser, to unaffiliated registered investment companies. The investment objectives, fees, expenses, risks and other important information are outlined in their prospectuses and related documents.

Nicholas also provides investment advisory services to two private funds for which Nicholas is the General Partner. The investment objectives, fees, expenses, risks and other important information are outlined in the Confidential Offering Circulars, Limited Partnership Agreements and Subscription Agreements.

Wrap Fee Accounts (“Wrap”)

Nicholas has been retained as an investment manager under a number of Wrap-around fee or so-called “Wrap-fee” arrangements sponsored by certain unaffiliated brokers-dealers (the “Program Sponsors”), including, Credit Suisse Securities LLC. These Wrap accounts are generally managed in a similar manner as Nicholas’ separate accounts in similar strategies; however, the Wrap accounts are traded almost exclusively through the Program Sponsor’s trading desk which may limit Nicholas’ ability to achieve best execution. In addition, Wrap accounts generally do not participate in initial or secondary offerings because of the program sponsor’s requirement to trade through the sponsor’s trading desk.

Under such Wrap programs, the Program Sponsors may recommend a client retain Nicholas as an investment adviser, pay Nicholas’s investment advisory fee on behalf of the client, monitor and evaluate Nicholas’s performance, execute the client’s portfolio transactions without commission charges, and provide custodial services for the client’s assets, all for a single fee paid by the client to the Program Sponsor. The single fee (Wrap fee) is negotiated between the client and the Program Sponsor, a portion of which is paid to Nicholas as an investment advisory fee.

Generally, the client within a Wrap program enters into an investment advisory agreement with the Program Sponsor and Nicholas enters into a sub-advisory agreement with the Program Sponsor. These agreements may be terminated, generally, at the written request of either the client, the Program Sponsor or Nicholas. In the event of termination, the advisory fee will, if necessary, be pro-rated and any unearned fees will be returned to the client. The products offered by Nicholas to client participants in these wrap-fee programs vary among the different programs.

Ordinarily, the sub-advisory agreement between the Program Sponsor and Nicholas provides for Nicholas to offer continuous investment management advice to clients based on the individual needs of each client. Nicholas generally maintains exclusive investment discretion as to which securities shall be purchased or sold in a client’s account in a manner consistent with the client’s selected product, investment objectives, policies and restrictions (if any) and the capabilities of the client’s selected custodian.

In determining the suitability of Nicholas’ investment strategy selected by the Wrap program client to the individual needs and financial situation of such client, Nicholas relies on the Program Sponsor’s extensive information on the prospective client. This information may come from, among other things, a personal interview of the client, a written questionnaire completed by the client who provides certain financial and other relevant data including the client’s investment objectives, risk tolerances and investment restrictions, if any. Once the account has

been established, Nicholas may communicate with the client, as specified in its sub-advisory agreement with the Program Sponsor.

For more information, including fees, regarding any of the Wrap programs offered by any of the listed Program Sponsors in which Nicholas participates, please see Firm Brochure of each Program Sponsor's Form ADV.

Non-Discretionary Advisory Services/Unified Managed Accounts (“UMA”)

Nicholas provides various model portfolios as part of UMA programs. The models are used by the UMA Program Sponsor to manage their client portfolios for which they maintain full investment discretion. Nicholas is responsible for maintaining the models only and has no discretion over the accounts and therefore does not consider the individual needs of the program clients.

Nicholas does not have a relationship or agreement with the UMA program clients and does not receive any specific client information from the UMA Program Sponsor. The UMA Program Sponsor retains full discretion on whether or not to invest their UMA clients' assets using the model portfolios. The UMA Program Sponsor, based on the information it obtains from its clients, will determine the suitability of the investment program for the client and their specific circumstances.

Item 5: Fees and Compensation

Nicholas is strictly a fee-only investment management firm. Nicholas bases its investment management fees on a percentage of assets under management and/or the performance of the account.

Nicholas may, at its discretion, charge different fees for different accounts and may agree to aggregate assets for related accounts for fee calculations. Nicholas, in its sole discretion, may waive its fee and/or charge a lesser investment advisory fee based upon various criteria (e.g., historical relationship, type of assets, account complexity, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, investment vehicle etc.).

Institutional and Other Separate Account Fees

Compensation for separate accounts generally consists of an annual fee based upon a percentage of the assets under management, which is generally payable quarterly in arrears. Fees may be adjusted for contributions or withdrawals during the billing period. If an account is terminated, fees will be prorated for the partial quarter.

Standard Fee Schedule

US Small Cap:	1.00% of net asset value
US Growth Equity:	0.85% of net asset value
Convertible Arbitrage:	1.00% of net asset value
Convertibles:	0.75% of net asset value

Nicholas will typically waive a portion of or in some instances the entire management fee for accounts related to Nicholas or its principals.

Wrap Fee Accounts (“Wrap”)/UMA Model Portfolio Fees

Under sub-advisory agreements, the Program Sponsors generally pay Nicholas a quarterly fee, in advance, for its investment advisory services. Nicholas does not solicit or require clients to pay fees in advance. The fee is generally between 0.30% to 0.50% of the assets Nicholas manages under the program depending on the size of the Wrap program, services performed by the Program Sponsor and the product managed. If an account is terminated, any unearned fees will be returned to the client. The fees paid to Nicholas will generally be a portion of the total fee charged to the client by the Program Sponsors. For more information regarding the Wrap program please refer to the Program Sponsor’s Form ADV Part 2A, Appendix 1.

In evaluating a Wrap or UMA program arrangement, a client should recognize that brokerage commissions for the execution of transactions in the client’s account are generally not negotiated by Nicholas. Transactions within the Program Sponsor are generally effected “net of” (i.e., without) commissions. A portion of the Wrap-fee is generally considered as being in lieu of brokerage commissions. Transactions for Wrap/UMA client accounts will generally be effected through the Program Sponsor. However, Nicholas usually has the ability to select brokers and dealers other than Program Sponsor when necessary to fulfill its duty to seek best execution. The brokerage commissions of brokers and dealers other than the Program Sponsor are generally not part of the Wrap-fee and clients will pay these commissions in addition to the Wrap-fee.

Considerations in selecting broker/dealers other than the Program Sponsor are set forth in the response to 12B.

Registered Investment Companies and Private Funds

Nicholas acts as a sub-adviser for various registered investment companies that generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 1.50% means the investment company charges 1.50% for their services. Nicholas' fee is calculated and paid, monthly in arrears, by the investment adviser of the mutual fund. If Nicholas purchases a mutual fund in its investment strategies the fees charged by the fund are in addition to the fees paid by you to Nicholas.

The investment management fees received by Nicholas for managing the private funds are described in the fund's private offering memorandum and other subscription documents. The fees are calculated by the funds administrator and deducted by Nicholas quarterly in advance.

Other Fees, Expenses and Charges

In addition to Nicholas' advisory fees, there may be other fees or expenses charged to clients by their custodians, broker-dealers or other service providers. Such fees may include custodian fees, brokerage fees, transaction or ticket charges or taxes, among others. Please see **Item 12** for a description of Nicholas' brokerage practices.

Past Due Accounts and Termination of Agreement

Nicholas reserves the right to stop work on any account that is more than 90 days overdue. Any unused portion of fees collected in advance will be refunded within 120 days.

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

Nicholas, generally, does not currently charge performance-based fees (*i.e.*, fees calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client) for Nicholas's separate institutional accounts. In limited circumstances, and generally at the request of the client, Nicholas may charge performance based fees. Nicholas is the General Partner of a private fund that is charged a performance-based fee in addition to an asset based fee.

Nicholas's principals and their families have significant beneficial ownership in various accounts that are managed side-by-side with our clients' accounts. The management of these accounts side-by-side with our client accounts creates certain conflicts of interest for Nicholas and its supervised persons, including the incentive to allocate profitable trades to the accounts with beneficial ownership or that charge performance based fees.

Nicholas has implemented procedures intended to prevent the firm or its employees from favoring accounts beneficially owned or subject to performance based fees. Nicholas aggregates trades across all eligible accounts whenever possible to ensure accounts are treated fairly relative to the allocation of trades. In the event accounts that are being charged performance fees are trading in the same security as accounts being charged an asset based fee Nicholas will generally aggregate the trade to ensure the same price and market access for all eligible accounts. Certain conditions may cause Nicholas to vary the portfolio holdings, the timing or size of trades among

various accounts, even within a given strategy. Availability of cash, market conditions, varying platforms, directed brokerage, and client restriction among other factors can cause portfolios to differ slightly over time. The detailed policies are designed to be equitable to all clients over time and are outlined in our Code of Ethics which is available on request.

Item 7: Types of Clients

Nicholas generally provides investment advice to individuals, banks or thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities, Wrap accounts and private investment vehicles. Client relationships vary in scope and length of service.

Nicholas also provides model portfolios to the program sponsor of a UMA program on a non-discretionary basis. The models are provided to the UMA program sponsor who in turn has discretionary authority over how the models are used for each of their clients.

Account minimums depend on the investment vehicle:

Institutional and Other Separate Accounts

The minimum account size is generally \$5 million in assets under management. Nicholas reserves the right to waive account minimums at its discretion. Other exceptions will apply to employees of Nicholas and their relatives, or relatives of existing clients.

Wrap Fee Accounts (“Wrap”)/Model Portfolios

The minimum account size is generally the lesser of \$250,000 or the minimum imposed by the Program Sponsor. Nicholas has the discretion to waive the account minimum.

Registered Investment Companies and Private Funds

Nicholas provides sub-advisory service to various investment companies. The account minimums for these accounts are described in the registration statements of those funds.

Nicholas currently manages two private funds. The details regarding minimum account sizes, fees and other important information are outlined in the private offering memorandum and other subscription documents.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Investment Philosophy

We believe, and our principal's 26 years of experience has confirmed, that investing in successful, growing companies—ones that manage change advantageously and are poised to exceed expectations—have the potential to result in outstanding capital appreciation. The source of this positive change can be a new product, competitive advantage, regulatory change or a management change. We then determine if the positive change is sustainable by reviewing its long-term earnings potential, financial strength and quality of management. We also confirm the timeliness of the investment by reviewing the stock's relative price strength, market sentiment and economic factors impacting the company.

Nicholas Investment Partners philosophy is well suited to the more dynamic, less widely followed small and mid-capitalization market segment where experienced investors can better identify whether positive change is sustainable and investable.

US Small Cap and US Growth Equity

In managing the firm's US Small Cap and US Growth Equity strategies, we apply an active bottom-up investment process, combining traditional fundamental analysis with the power of quantitative techniques to efficiently research investment ideas. Approximately 80% of investment ideas are internally generated. Each member of the investment team is actively engaged in the traditional fundamental research and confirmation process of highly ranked stocks generated by external and internal research sources including a multifactor quantitative model. Our proprietary quantitative research model, which is based upon our philosophy of positive change, supported by quality/sustainability and timeliness measures, effectively and objectively evaluates each holding and competing top-ranked investment candidates by continually weighting and ranking the entire eligible investment universe based on our investment criteria. This leverages the investment team's time spent on research and portfolio management.

After an initial screening of the top-ranked companies, the portfolio managers conduct their own original research. Traditional fundamental research incorporates the analysis of a company's management, expected growth of new or existing products/services, assessment of its balance sheet, and examination of its competitive landscape as well as the regulatory environment.

The experience of the senior members of our investment team, who have been following many of these companies since they came public over the last 25 years, is a key competitive distinction. They often already know the strength of the management, their credibility and track record; the critical factors determining the success of the company's business plan; industry dynamics; competitors; etc. Company management and industry analysts frequently meet with or contact the investment team.

Catherine Nicholas's global experience offers a distinct competitive advantage to better evaluate a company's prospects outside US markets which is critical to understanding the investment opportunities of the many US listed companies headquartered outside the U.S. and/or U.S. based companies with a substantial part of their revenue growth being generated outside the US.

John Wylie's extensive credit analysis and insights from convertibles, which are mostly issued by small to mid-cap companies, are invaluable in evaluating investment candidates' financial strength, their ability to access capital and its relative cost to their competitors

The investment team also leverages their broad and diverse global network of analysts, built over 25 years, to cross verify and challenge the investment premise of each company they follow. Our team knows which analysts do their homework and have credibility. Given the leverage of the firm's quantitative research system, the team can effectively sift through the continual noise of a 24-hour business news cycle to determine what is truly relevant to capture investment opportunities.

US Convertibles

Nicholas Investment Partners employs a bottom-up process which blends both quantitative and fundamental research to identify convertibles securities with favorable asymmetric risk/reward profiles. Our Convertible portfolios benefit from the insights gained and the overlap in holdings in issuers in US Small Cap and US Growth Equity (mid cap) strategies.

First, we leverage our internally developed, bottom-up equity quantitative model to identify securities meeting our equity investment philosophy of positive change, sustainability/quality and timeliness. Companies with strong signals of our equity investment criteria are then subject to rigorous fundamental analysis, which incorporates deeper review of the company's balance sheet, competitive and market share analysis, as well as channel checks with our network of external analysts and managements that we have built strong relationships with over the last 20+ years. The investment team generally follows the 100 top-ranked companies within the Convertibles universe. This includes companies that are also held in our equity portfolios, suppliers and/or competitors with our holdings. After an initial screening of the top-ranked companies, the portfolio managers conduct their own original research. Their objective is to confirm that each investment idea demonstrates positive fundamental change with sustainable earnings growth with timely market recognition.

Next, John Wylie, the lead portfolio manager for Convertibles, performs traditional credit analysis to assess the strength of each company's cash flow, identify current and forecasted financial needs and evaluate its capital structure to determine the overall health and quality of the company. He also compares the convertible security relative to existing and outstanding debt in terms of its relative pricing; its position in the overall capital structure, and measures the option adjusted spread to determine if the issue is relatively rich or cheap.

The investment team also leverages their broad and diverse global network of analysts, built over 25 years, to cross-verify and challenge the investment premise of each company they follow. Our team knows who the best analysts are, those that do their homework and have credibility. Given the leverage of the firm's quantitative research system, the team can effectively sift through the continual noise of a 24-hour business news cycle to determine what is truly relevant to capture investment opportunities.

Finally, our portfolio manager performs key stress tests and scenario analysis to forecast how the convertible would react to changes in interest rates, option adjusted and credit spreads and the

security's sensitivity to equity volatility. For example, we test to verify how the security would react to +/- 10% change in the underlying equity price as well as a +/- 20% change. Our goal is to maximize the equity optionally and minimize the downside risk. In general, we are looking for convertible securities that we expect will participate in at least 70% of the equity upside and less than 50% of the downside.

Research Systems

Nicholas Investment Partners uses an active, bottom-up approach to security selection, combining rigorous fundamental analysis with the discipline and objectivity of quantitative analytics. The research process is designed to evaluate the relative risk and potential reward of each holding. This includes the evaluation of each company's business model, competition, changes in regulatory environments and other factors that would prevent the company from meeting its projected growth estimates. In addition to the firm's proprietary quantitative model, the firm also uses the following databases and leading investment research applications to efficiently and effectively synthesize and filter information to evaluate new ideas, monitor existing holdings as well as analyze and measure portfolio risk:

CallStreet enables us to track, archive and tune in to material announcements and management presentations.

FactSet[®] offers instant access to accurate financial data and analytics to support securities analysis, performance measurement and attribution, and risk analysis. Nicholas Investment Partners has formed a strategic business relationship with FactSet to provide ongoing technical and programming support for our internally developed quantitative model (further detailed in our Idea Generation response).

MarketSmith[®] provides securities research, equity investment ideas and trading services.

Axioma's risk models make the portfolio managers more aware of the sources of specific underlying equity risk in the portfolio. Additional fundamental research and oversight is focused on holdings with the highest active risk.

Bloomberg is a leading provider of global real-time and historical financial data for equity and fixed income securities. Bloomberg also provides trade order management systems for our Convertibles portfolio management.

KYNEX provides an integrated platform to perform portfolio/risk management and individual security analytics. We use Kynex models to perform stress tests and scenario analysis to forecast how each convertible would react to changes in interest rates, option adjusted and credit spreads and the security's sensitivity to equity volatility. For example, we test to verify how the security would react to +/- 10% change in the underlying equity price as well as a +/- 20% change. Our goal is to maximize the equity optionally and minimize the downside risk. In general, we are looking for convertible securities that we expect will participate in at least 70% of the equity upside and less than 50% of the downside.

The time from initial identification of an investment idea to a final decision will vary based on the team's prior knowledge of the underlying company, its competitive landscape and the complexity of its business model to ensure it meets our positive changes, sustainability and timeliness criteria. Only after rigorous examination are the best investment ideas discussed and compared to the strength of existing current holdings or other eligible candidates. The lead portfolio manager makes the final investment decisions of which stocks to invest in the portfolio. Purchases and sells are reviewed on an ongoing basis with a weekly formal team review.

Investment Strategy

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy.

In managing US Small Cap portfolios, the investment team covers a broad universe of primarily within the market capitalization range of the Russell 2000 Growth Index. The objective of the US Small Cap strategy seeks capital appreciation and to outperform its benchmark over a full market cycle, typically a 3 to 5 year time horizon.

In managing US Growth Equity portfolios, the investment team covers a broad universe of primarily within the market capitalization range of the Russell Midcap Growth Index. The objective of the US Growth strategy seeks capital appreciation and to outperform its benchmark over a full market cycle, typically a 3 to 5 year time horizon.

In managing Convertibles portfolio, the investment team covers a broad universe of U.S. convertible securities, many of which are small to mid-cap companies. We prefer to invest in convertible securities offering 70-80% of the equity upside and generally less than 50% of the downside participation based on modeling of the security's terms, equity sensitivity, interest rate changes, etc. The objective of the Convertibles strategy seeks capital appreciation and to outperform its benchmark over a full market cycle, typically a 3 to 5 year time horizon.

US Small Cap/US Growth Equity Buy/Sell Criteria

Nicholas Investment Partner's equity buy discipline is to invest in companies demonstrating a combination of the following:

Positive Change: Holdings are typically successful, growing companies that manage change advantageously and are poised to exceed expectations. Sources of positive change may include a new product, competitive advantage, industry dynamics, regulatory change or management change.

Sustainability: This positive change must also be sustainable and supported by the company's long-term earnings potential, financial strength and quality of management.

Timeliness: The timeliness of investment is confirmed by evaluating the stock's relative price strength, liquidity, institutional sponsorship, market sentiment and economic factors impacting the company.

The primary reason for a stock being sold out of the portfolio is that it no longer meets the investment criteria of positive change, sustainability or timeliness. If one element of the buy criteria is no longer present, which is confirmed through additional research, the security is sold from the portfolio. Additional factors incorporated into the sell discipline include:

Better total return candidate: Since portfolios are fully invested, the investment team is forced to sell an existing holding in order to buy a new one. This is the most common reason a stock is sold.

Stock appreciates beyond the portfolio concentration and capitalization limits: The investment team will generally take profits as the stock appreciates and pare the holding back from the maximum position size of 5%. If a stock appreciates beyond 2x the capitalization range of the client's benchmark, the portfolio manager will sell the entire position and redeploy the profits to other positions meeting the buy criteria.

Convertibles Buy/Sell Criteria

In order for a convertible security to be bought in our convertibles portfolio, it must meet the following three criteria:

- 1) **Equity Opportunity:** The convertible's underlying equity demonstrates a combination of the following:

Positive Change: Holdings are typically successful, growing companies that manage change advantageously and are poised to exceed expectations. Sources of positive change may include a new product, competitive advantage, industry dynamics, regulatory change or management change.

Sustainability: This positive change must also be sustainable and supported by the company's long-term earnings potential, financial strength and quality of management.

Timeliness: The timeliness of investment is confirmed by evaluating the stock's relative price strength, liquidity, institutional sponsorship, market sentiment and economic factors impacting the company.

- 2) **Credit Quality:** The company has the financial strength and flexibility to meet its debt obligations after examining its overall credit profile, balance sheet, income statement, cash flows, covenants and other features of the convertible security. We target issues that are higher in the capital structure and issuers with high interest coverage and less default risk. Ideally the company's balance sheet gives them the strength and flexibility to optimize their financing needs.

- 3) **Asymmetrical Return Profile:** We favor convertible securities which model out to provide a significant asymmetrical risk/reward profile – those we believe will participate in a greater degree of the upside of the common stock than the downside. Ideally, the convertible will participate in 70%-80% of the upside of the underlying equity and less than 50% of the downside.

We will sell a convertible for any of the following reasons:

- 1) The primary reason for a security being sold out of the portfolio is that convertible no longer meets our asymmetric risk/reward profile. This is most often the case when the underlying equity appreciates to the point that the convertible has too much equity sensitivity.
- 2) Changes in the issuer's credit outlook that leads to a weakening of its convertible risk/reward profile.
- 3) The underlying equity no longer meets our equity investment criteria of positive change, sustainability or timeliness. If one element of the buy criteria is no longer present, which is confirmed through additional research, the security is sold from the portfolio.
- 4) A better total return candidate is identified. This sell discipline is a result of the portfolio holding little or no cash so each holding has to earn its place in the portfolio by being continually challenged with new investment opportunities.

Portfolio Construction

Portfolios are built from the bottom-up based on the strength of each individual stock. Although we are aware of benchmark concentrations, sector and industry weights are a residual of the stock selection process. Individual position sizes are primarily based on the portfolio manager's conviction in each holding's capital appreciation potential based on our buy criteria of positive change, sustainable earnings growth and timeliness of investment. When constructing portfolios, the portfolio manager will typically adhere to general investment guidelines, including but not limited to the following:

- Portfolios are well diversified;
- Individual positions generally do not exceed 5% of the total portfolio, except for securities that are over 5% of the benchmark for equity portfolios;
- To preserve liquidity, trading volume is typically restricted to a maximum of 5 days and the firm will not hold more than 5% of outstanding shares;
- Market capitalization of stocks at the time of purchase is within the market capitalization range of the Index, but will typically not exceed 2x the upper limit of the Index as the stock appreciates;
- Portfolios are well-diversified by industry/sector and weights are monitored relative to the Index. Sector weights are typically no greater than 2x the benchmark weight or 35% of the total portfolio market value; and
- Portfolios are fully invested to achieve maximum market exposure and to avoid market-timing risk. Cash levels are typically less than 2% and generally will not exceed 5% of the portfolio.

Risk of Loss

All investment programs have certain risks that are borne by the investor. Each holding in the portfolios is subject to security-specific risks as well as active risk to its benchmark. Security specific risk is minimized by restricting individual positions to a 5% maximum weight which is monitored daily by the lead portfolio manager and Chief Compliance Officer. The research process is designed to evaluate the relative risk and potential reward of each holding. This includes the evaluation of each company's business model, competition, changes in regulatory

environment and other factors that would prevent the company from meeting its projected growth estimates. No process can eliminate all risk.

The investment team continually monitors and evaluates the portfolio's risk/reward characteristics to help ensure our client portfolios are positioned to capture alpha and to manage significant risk exposures. Accordingly, our portfolio managers use Axioma's risk model to measure each security's individual contribution to the portfolio's active risk versus its benchmark. This process enables the portfolio managers to understand the sources of risk in the portfolio and checks their level of conviction in those holdings generating the highest stock specific risk.

Additional risks inherent in investments include:

- **Market Risk:** The price of a security, bond, or mutual fund 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.
- **Small Cap Risk:** Small-cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small-cap market may adversely affect the value of these investments.
- **IPO Risk:** The strategies may purchase initial public offerings (IPOs) or shortly thereafter. The prices of securities purchased in IPOs can be very volatile. The effect of IPOs on the portfolio(s) performance depends on a variety of factors.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Foreign Securities Risk:** Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: political and economic developments - the political, economic and social structures of some foreign countries may be less stable and more volatile than those in the U.S.; trading practices - government supervision and regulation of foreign security and currency markets, trading systems and brokers may be less than in the U.S.; availability of information – foreign issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers; limited markets – the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and currency exchange rate fluctuations and policies. The risks of foreign investments typically are greater in less developed countries or emerging market countries.
- **Counterparty Risk:** The risk that the person or institution with which you have entered a financial contract -- who is a counterparty to the contract -- will default on the obligation and fail to fulfill that side of the contractual agreement. In other words, counterparty risk is a type of credit risk. Counterparty risk is the greatest in contracts drawn up directly between two parties and least in contracts where an intermediary acts as counterparty. It is the risk inherent to each party to a contract that the counterparty will not live up to its contractual obligations.

Item 9: Disciplinary Information

Neither Nicholas, nor any of its employees have been the subject of any material legal or regulatory findings, or the subject of any pending criminal proceedings. Item 10: Other Financial Industry Activities and Affiliations

Except as previously disclosed, Nicholas has no affiliation with any other financial service providers. Neither Nicholas, nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Additionally, neither the Firm nor any member of its management are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of these entities. Nicholas does not recommend or select other investment advisers for direct or indirect compensation.

Nicholas serves as sub-advisor to various registered investment companies. Nicholas has no material relationship with the advisers to these investment companies aside from acting as a sub-adviser that would introduce potential conflicts of interest. Nicholas is not compensated by the funds to sell or distribute the investment companies' shares. Nicholas receives an asset-based fee for its management services to the funds.

Nicholas acts as the general partner for two private funds. Supervised and Related Persons have significant ownership interests in the funds. This creates a conflict of interest as Nicholas may have an incentive to allocate the most profitable trades to the funds with which it has significant beneficial interest. Nicholas has implemented certain procedures to help mitigate these conflicts that are described briefly in Item 6 and in our Code of Ethics.

Item 10: Other Financial Industry Activities and Affiliations

Except as previously disclosed for registered investment companies and wrap programs, Nicholas has no affiliation with any other financial service providers. Neither Nicholas, nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Additionally, neither the Firm nor any member of its management are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of these entities. Nicholas does not recommend or select other investment advisers for direct or indirect compensation.

Nicholas serves as sub-advisor to various registered investment companies. Nicholas has no material relationship with the advisers to these investment companies aside from acting as a sub-adviser that would introduce potential conflicts of interest. Nicholas is not compensated by the funds to sell or distribute the investment companies' shares. Nicholas receives an asset-based fee for its management services to the investment companies.

Nicholas acts as the general partner for two private funds. Supervised and Related Persons have significant ownership interests in the funds. This creates a conflict of interest as Nicholas may have an incentive to allocate the most profitable trades to the funds with which it has significant

beneficial interest. Nicholas has implemented certain procedures to help mitigate these conflicts that are described briefly in Item 6 and in our Code of Ethics.

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

Description of Code of Ethics

The employees of Nicholas have committed to understanding and abiding by the firm's Code of Ethics. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request. You may obtain a copy of our most recent Code of Ethics by sending a request to:

Nicholas Investment Partners
Attention: Tammy Wiseman
P.O. Box 2828
Del Mar, CA 92014
twiseman@nicpartners.com

Participation or Interest in Client Transactions

Nicholas or its supervised persons do not buy securities from or sell securities to any investment advisory client.

As discussed in item 10, Nicholas acts as the general partner for two private funds. Supervised and Related Persons have significant ownership interests in the funds. Nicholas, its supervised employees and their family members are invested in the funds along with clients. These related parties participate in all funds transactions on a pro rata basis along with clients. Nicholas does not solicit or recommend to advisory clients to invest in the funds for which it acts as general partner and advisor. Generally, the funds are only offered to firm principals and their family and friends. The potential conflicts of interest that arise from this situation are described briefly in Item 6, Item 10 and in detail in our Code of Ethics.

Personal Trading

Nicholas and its employees may buy or sell securities in their personal accounts that are also held in client accounts.

Nicholas has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended, which establishes standards of conduct for Nicholas's supervised persons. The Code of Ethics includes general requirements that Nicholas's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. As stated above, clients and prospective clients may obtain a copy of Nicholas's Code of Ethics by contacting Tammy Wiseman, (858) 759-4545 or twiseman@nicpartners.com.

Each supervised person of Nicholas receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received the materials. Annually, each supervised

person must certify that he or she complied with the Code of Ethics during that year. It also requires supervised persons to report any violations of the Code of Ethics promptly to Nicholas's Chief Compliance Officer.

The Code of Ethics requires supervised persons to report their personal securities transactions and holdings at least quarterly to Nicholas's Compliance Officer, and requires the Compliance Officer, or designee, to review those reports. The Code of Ethics also requires all personnel to pre-clear all trades (including private placements) for personal securities accounts with the Compliance Officer or designated senior personnel, other than trades with respect to specified "exempted securities" (such as mutual funds, exchange traded funds, US treasuries, etc).

Nicholas and its partners, officers and employees may buy or sell certain securities for their own accounts based on personal investment considerations aside from company or industry fundamentals, which Nicholas would not deem appropriate to buy or sell for clients. Nicholas's partners, officers and employees also may invest in Nicholas's managed portfolios. Nicholas's partners, officers and employees, may from time to time purchase or sell, or hold positions in, securities recommended to clients, including purchasing securities that are being sold for clients and vice versa. Nicholas's Code of Ethics seeks to ensure such employees do not personally benefit from the short-term market effects of their recommendations to clients through several safeguards. First, as described above, Nicholas requires all employees pre-clear all trades for personal securities accounts (except trades with respect to specified "exempted securities. In determining whether to pre-clear a trade, the Compliance Officer and the person requesting the trade must confirm that: (1) the individual attest that he/she is not acting on material non-public information (inside information) (2) no client account has engaged in a transaction in that security (or an equivalent security) within the past three days and Nicholas does not plan to trade in such security (or an equivalent security) in the following three days; and (3) with respect to any sale by an investment person, the person requesting the trade has held the security for at least 30 days (unless the security is being sold at a loss). The Compliance Officer may waive these restrictions based on individual circumstances and if it is determined that the trade does not involve a material conflict with client's interest.

All personnel are required to send duplicate copies of confirmations or statements, with respect to all brokerage accounts they are obligated to report, to Nicholas in order to monitor compliance with Nicholas's personal trading policies and restrictions summarized above.

Nicholas manages accounts beneficially owned by the principals of the adviser that were initially invested to seed the firm's products and remain active today to demonstrate our commitment to the business and our products. These accounts are managed in strategies that are substantially similar to the accounts we manage for our clients in their respective strategies. These accounts are managed along-side our client's accounts and treated, in all material respects, as if the accounts were client accounts. The account's trades are aggregated with client's trades and receive the same average price and pro-rata allocations as other clients participating in the trade. These accounts are monitored daily to ensure they have the same holdings as our client accounts for the respective strategies.

Nicholas also manages accounts that are beneficially owned by the principals of the adviser that are managed in a highly concentrated, tax-aware strategy not appropriate for most clients.

Nicholas treats the trading activity in these accounts as personal securities transactions and has implemented specific policies to address the conflicts associated with managing these accounts along-side our clients' accounts. All trades in non-exempt securities are processed through the adviser's trade order management system and must be approved by the Chief Investment Officer and Chief Compliance Officer (or designees in their absence). The account's trades are reconciled daily from the trading system to the custodian of the accounts to ensure no unauthorized trading has occurred.

Item 12: Brokerage Practices

Broker Selection Criteria

Nicholas generally exercises discretion to select the brokers used for execution of client transactions. The selection criteria used by the Firm when selecting brokers includes, but is not limited to the following:

- Research capability, coverage and accessibility to Nicholas's investment team;
- Ability to access international research, including relevant industry analysis;
- Ability to execute trades;
- Quality of customer service and interaction with Nicholas;
- Transaction rates;
- Reliability and financial stability;
- Ability to access liquidity;
- Counterparty risk;
- Execution and settlement speed;
- Trust, including ability to maintain confidentiality regarding our market activities; and
- ECM capability, including primary and secondary issuance and block trades.

Clients in commission recapture programs or with directed brokerage requirements may limit Nicholas's ability to negotiate commissions and may result in those clients obtaining different prices for the same security than the accounts that do not have such requirements.

When placing client trades, Nicholas strives to seek best execution for its client at the time of the trade. Although Nicholas will strive to achieve the best execution possible for client securities transactions, this does not require it to solicit competitive bids and Nicholas does not have an obligation to seek the lowest available commission cost. In seeking best execution, the determinative factor is not necessarily the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with these factors, while Nicholas will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions. Nicholas is not required to negotiate "execution only" commission rates, thus the client may be deemed to be paying for research and related services (*i.e.*, "soft dollars"), if any, provided by the broker which may be included in the commission rate.

To ensure brokerage firms selected by Nicholas are conducting overall best execution, Nicholas will periodically evaluate the trading process and brokers utilized. Nicholas's evaluation will consider the full range of brokerage services offered by the brokers, which may include, but is

not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

While Nicholas generally has discretion to determine which brokers will be used for trade execution, Nicholas does not recommend to client's which brokers (or custodians) they should engage for their own purposes.

Wrap Fee Accounts ("Wrap")/Model Portfolios

Nicholas generally places all transactions for wrap accounts through the Program Sponsor's trading desk. Nicholas does not negotiate brokerage commissions for these transactions as the commissions are included in the wrap fees charged by the Program Sponsor. For these reasons, Nicholas does not monitor or evaluate these commission rates or the quality of services they receive from the Program Sponsor. Although Nicholas has the ability to use brokers other than the Program Sponsor, due to the additional costs Nicholas will almost exclusively execute transactions through the Program Sponsor.

Soft Dollar Considerations

When appropriate under its discretionary authority and consistent with its duty to seek best execution, Nicholas may direct brokerage transactions for client accounts to broker-dealers that provide Nicholas with research and brokerage products and services. The brokerage commissions used to acquire research and brokerage products and services are known as "soft dollars." Securities Exchange Act section 28(e) provides a "safe harbor" that permits an investment adviser to pay more than the lowest available commission for brokerage and research services if it determines in good faith that the commission paid is reasonable in relation to the brokerage and research products and services provided.

Broker-dealers typically provide a bundle of services including research and execution of transactions. The research provided can be either proprietary (created and provided by the broker-dealers, including tangible research products as well as access to analysts and traders) or third-party (created by a third party, but provided by broker-dealers). Nicholas may use soft dollars to acquire either type of research.

Currently, Nicholas obtains both proprietary and third party research services which it pays for using soft dollars in accordance with Section 28(e) of the Securities Exchange Act.

Research obtained with soft dollars is not necessarily used for the specific account that generates the soft dollars. Nicholas does not attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives benefits all clients and assists Nicholas in fulfilling its overall duty to all its clients. Moreover, clients whose accounts do not permit certain transactions that generate the soft dollars or prohibit soft dollar transactions entirely may benefit from the research and other services provided to Nicholas.

The receipt of research in exchange for soft dollars benefits Nicholas by allowing Nicholas, at no cost to it, to supplement its own research and analysis activities, to receive the views and

information of individuals and research staffs of other securities, firms, and to gain access to personnel having special expertise on certain companies, industries and areas as well as economic and market factors. Research and brokerage services acquired with soft dollars may include, but not be limited to: reports on the economy, industries, sectors, and individual companies or issuers; statistical information; accounting and tax law interpretations; political analyses; reports on legal developments affecting portfolio securities; information on technical market actions; credit analyses; quotation and trading systems; risk measurement software and services; news services; financial and market data services; research conferences; and conferences with analysts and company executives.

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type. Nicholas may select broker-dealers based on its assessment of their ability to provide quality executions and its belief the research, information, and other services provided by such broker-dealers may benefit client accounts. It is not possible to place a dollar value on the special executions or on the research services Nicholas receives from broker-dealers effecting transactions in portfolio securities. Accordingly, broker-dealers selected by Nicholas may be paid commissions for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if Nicholas determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or Nicholas's overall duty to its discretionary accounts.

Nicholas will not enter into any agreement or understanding with any broker-dealers which would obligate Nicholas to direct a specific amount of brokerage transactions or commissions in return for such services.

In using third party research or other services, Nicholas may use its available soft dollar credits and pay cash to make up the difference. If the product or service obtained by Nicholas is a "mixed use" item (products or services that provide both research and non-research benefits), Nicholas may use soft dollars for the research portion and pay cash for the non-research portion. Although the allocation between soft dollars and cash is not always capable of precise calculation, Nicholas will make a good faith effort to allocate such items reasonably.

Nicholas's relationships with brokerage firms that provide soft dollar services to Nicholas influence Nicholas's judgment in allocating brokerage business and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. These conflicts of interest are particularly influential to the extent that Nicholas uses soft dollars to pay expenses it would otherwise be required to pay itself. Nicholas attempts to limit soft dollar commissions to twenty percent or less of total commissions on a calendar year basis.

Third party research and services obtained by soft dollars are reviewed at least annually by Nicholas's partners, including the Chief Compliance Officer, and Chief Investment Officer. Soft

dollar commissions are also reviewed on a monthly basis in the firm's Compliance and Operations Report, attended by all employees.

Aggregation of Trades & Trade Rotation

Institutional, Other Separate Accounts and Registered Investment Companies and Private Funds

Although each client account is individually managed, Nicholas often purchases and/or sells the same securities for many accounts. When possible, Nicholas aggregates transactions in the same securities for eligible clients for whom Nicholas has discretion to direct brokerage. Clients in an aggregated transaction each receive the same average price per share or unit which is generally allocated on a pro-rata basis. Eligibility for a transaction will depend on various factors including available cash, account restrictions, client directed brokerage, among others.

If more than one price is paid for securities in an aggregated transaction, each client in the aggregated transaction will typically receive the average price paid for the securities in the same aggregate transaction on that day. If Nicholas is unable to fill an aggregated transaction completely, but receives a partial fill of the aggregated transaction, Nicholas will normally allocate the partially filled transaction to clients pro rata.

After Nicholas has determined which client accounts are able to participate in an aggregated transaction, Nicholas uses an allocation methodology that helps ensure, over time, that no one account receives trading priority over any other account. As Nicholas executes aggregate orders, Nicholas generally allocates shares based on a pro rata methodology. In certain cases Nicholas may not allocate securities purely on a pro rata basis due to various factors which may include, without limitation, (i) client specific restrictions, (ii) cash availability, (iii) availability of alternative investment opportunities, (iv) rebalancing frequency, and (v) type of account, among others. Nicholas believes that its trade allocation policy is designed and applied in a manner that will result in the fair and equitable allocation of trades over time for all clients.

Once Nicholas executes a trade, Nicholas will give an average price to all of the accounts covered by the aggregated trade. Partially completed orders will be allocated on the same basis as completed orders.

Some clients with highly particularized investment policies or restrictions may not be able to participate in aggregated transactions for certain issues and may only be invested in such issues after guideline compliance has been established with respect to the acceptability of the issue and permissible amounts. Such clients may receive a less favorable price on such transactions. Some clients may not be able to participate in aggregated transactions for most issues and/or may be consistently traded toward the end of Nicholas' trade rotation if Nicholas determines that including such a client in aggregated transactions or in the normal trade rotation could adversely impact Nicholas' broader client group. In such cases, Nicholas will provide such client with prior notice of the reasons preventing him from regularly participating in aggregated transactions and/or being placed higher in the trade rotation. Such clients may regularly receive less favorable prices on account transactions.

If clients have instructed Nicholas to direct to a particular broker, they may pay different prices and commissions than those accounts that are unrestricted.

Wrap Fee Accounts (“Wrap”)/Model Portfolios

Nicholas will generally not block transactions for Wrap accounts with other accounts due to the transaction generally being executed by the Program Sponsors. This may prevent these accounts from receiving the benefits that may be realized by participating in the larger aggregated transaction at negotiated commissions.

Trade Errors

While Nicholas makes every effort to avoid mistakes, the trading process may result in unintended trade errors from time to time. Examples of trade errors may include purchasing or selling the wrong security, purchasing a security when the intent was to sell the security, selling a security when the intent was to purchase, allocating securities to accounts that are ineligible to own such security, or incorrect price allocation for the security being bought or sold. Nicholas believes it has adequate procedures to detect and prevent trade errors before they occur.

If a trade error is identified, it is promptly brought to the attention of the CCO, CIO, portfolio manager and trader for investigation and corrective action as needed. Trade errors are fully documented. Any trade error caused by Nicholas that results in losses to a client account is reimbursed by the firm to make the client whole. If a trade error results in a gain the client will receive the benefit of the gain.

Item 13: Review of Accounts

Account Review

Account’s performance, holdings and investment guidelines are monitored daily by the CIO, portfolio managers and compliance personnel.

Monthly account reviews are performed by the Client Service/Marketing team, Operations and Compliance. Account reviews are performed more frequently when market conditions dictate. In addition, the firm holds a monthly firm-wide Operations & Compliance Meeting to review the following compliance and operations topics:

- Post-trade compliance issues, if any;
- Portfolio characteristics and risk analysis
- Best execution;
- Broker commissions;
- Soft dollar commissions;
- IPOs Code of Ethics violations, if any;
- Client complaints, if any;
- Disclosures of gifts;
- Trade errors, if any;
- Compliance training as needed; and
- Any other operations or compliance related matters that require attention

Attendees include the firm's CIO, portfolio managers, trader, portfolio analyst, and client service and marketing staff. Monthly compliance meetings foster full disclosure and accountability within the firm and reinforce training and the importance of our compliance efforts.

Regular Reports

Account reviewers are members of the firm's Investment team, Operations team and the Client Service team. Clients receive periodic communications on at least a monthly basis. Written updates may include market and portfolio commentary and market outlook. Additionally, separate accounts receive an electronic account statement each month containing portfolio market value, performance, holdings, income, flows and a transaction summary.

Item 14: Client Referrals and Other Compensation

Nicholas does not receive an economic benefit from someone who is not a client for providing investment advisory services to its clients. Moreover, neither the Firm nor any of its related persons directly or indirectly compensates any person who is not a supervised person for client referrals.

Item 15: Custody

Institutional, Other Separate and Wrap Accounts

Pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, Nicholas is deemed not to have custody of client assets for any of its institutional separate, registered investment company or Wrap accounts. Nicholas does not maintain physical possession of these client's cash or securities. Generally, these clients deposit their assets with a qualified custodian selected by the client. If Nicholas's investment management fees are paid directly from the account managed by Nicholas the clients will generally instruct their custodians to pay Nicholas. Nicholas has no authority to deduct fees from these accounts.

Wrap accounts assets are generally deposited with the Program Sponsor or a qualified custodian selected by the Program Sponsor. Nicholas's Wrap fees are paid to the Program Sponsor and Nicholas has no authority to deduct fees from these accounts. Notably, in these cases a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost above the Wrap fee. Clients should be aware, however, of the differences between having their assets custodied at a broker-dealer versus a custodian bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

Nicholas may only implement its investment management recommendations after the client has arranged for and furnished Nicholas with all information and authorization regarding its accounts held at the designated qualified custodian.

Clients will generally receive statements on at least a quarterly basis directly from their qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to any reports that may be provided by Nicholas. Nicholas's

reports for client accounts may vary from custodial statements based on accounting procedures, pricing sources, reporting dates, or valuation methodologies of certain securities.

Private Funds

Pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, Nicholas is deemed to have custody of assets for its two private funds due to its position as general partner of the funds. The private funds are not subject to a surprise examination because the funds are subject to an annual audit by a PCAOB registered independent public accountant and audited financial statements prepared in accordance with GAAP are delivered to all investors annually within 120 days of fiscal year end.

Item 16: Investment Discretion

Discretionary Authority; Limitations

All investment management services are performed by Nicholas on a discretionary basis. In exercising its discretionary authority, Nicholas accepts discretionary authority to manage securities accounts on behalf of clients. Nicholas has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. The client does not approve the broker to be used and the commission rates paid to the broker. As disclosed previously, wrap program trades will generally be placed through the Program Sponsors trading desk limiting Nicholas's discretion in selecting brokers. Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

Limited Power of Attorney

By signing Nicholas's advisory agreement, clients authorize Nicholas to exercise full discretionary authority with respect to all transactions involving the client's account. Pursuant to such agreement, Nicholas is designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account which authorizes Nicholas to give instructions to third parties in furtherance of such authority.

Item 17: Voting Client Securities

Unless the client designates otherwise, Nicholas votes proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy. Nicholas's proxy voting policy is as follows:

Nicholas has retained Institutional Shareholder Services, Inc. ("ISS") to provide research, recommendations and voting services on proxy voting issues. Nicholas has instructed ISS to make voting decisions on behalf of each of Nicholas's accounts based on the considerations described in the proxy voting guidelines ISS periodically provides to Nicholas. Nicholas may override ISS' voting decisions if Nicholas deems it in the best interests of Nicholas's accounts. If Nicholas does not affirmatively override ISS' recommended voting decision, ISS will vote in accordance with its recommendation.

Notwithstanding the possibility that a material conflict of interest over proxy voting may arise between Nicholas and a client, Nicholas believes that it places the interests of its clients ahead of Nicholas's own interests by following ISS' recommendations. However, if Nicholas determines that the foregoing proxy voting policies do not adequately address a material conflict of interest over proxy voting arising between Nicholas and a client, Nicholas will, in its exclusive discretion, either (a) direct ISS to vote its proxy in accordance with ISS' recommendation or (b) provide the client with copies of all proxy solicitation materials that Nicholas receives with respect to this proxy, notify the client of the conflict and of Nicholas's intended response to the proxy solicitation and request that the client consent to Nicholas's intended response. If the client consents to Nicholas's intended response or fails to respond to the notice within a reasonable period of time specified in the notice, Nicholas will vote the proxy as described in the notice. If the client objects to Nicholas' intended response, Nicholas will vote the proxy as directed by the client.

If a material conflict of interest over proxy voting arises between Nicholas and a client, Nicholas will vote all proxies in accordance with the policy described above. If Nicholas determines that this policy does not adequately address the conflict of interest, Nicholas will notify the client of the conflict and request that the client consents to Nicholas's intended response to the proxy solicitation. If the client consents to Nicholas's intended response or fails to respond to the notice within a reasonable period of time specified in the notice, Nicholas will vote the proxy as described in the notice. If the client objects to Nicholas's intended response, Nicholas will vote the proxy as directed by the client.

Clients may obtain a copy of Nicholas's proxy voting policy and voting record cast on behalf of that client by contacting Chris Siriani at (858) 381-8011 or csiriani@nicpartners.com.

Nicholas will not process documents or give advice to clients regarding their participation as a member of a class action lawsuit for any accounts other than the private funds for which Nicholas acts as the general partner. Nicholas will provide assistance with trading related data as requested by all clients to help facilitate the client's proof of claim.

Item 18: Financial Information

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