

## FORM ADV Part 2

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This brochure provides information about the qualifications and business practices of Lee Munder Capital Group, LLC ("LMCG"). If you have any questions about the contents of this brochure, please contact us at (617) 380-5600. 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.

Lee Munder Capital Group, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information which you may use to determine to hire or retain an Adviser.

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

## **Material Changes**

In July 2010, the SEC published "Amendments to Form ADV" which amended the disclosure document that we provide to clients. This ADV item discusses only specific material changes at LMCG and provides clients with a summary of such changes.

This annual update to our brochure dated March 28, 2013 replaces our prior brochure dated July 31, 2012 with no material changes to report.

We will further provide clients with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting LMCG's CCO, Joseph Tower, at (617) 380-5620 or [compliance@leemunder.com](mailto:compliance@leemunder.com). Our brochure is also available on our website [leemunder.com](http://leemunder.com), also free of charge.

Additional information about Lee Munder Capital Group, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Lee Munder Capital Group, LLC who are registered as investment adviser representatives of Lee Munder Capital Group, LLC.

## Form ADV Part 2A

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## **Item 4 - Advisory Business**

Lee Munder Capital Group, LLC is an SEC registered investment adviser located in Boston, Massachusetts.

Lee Munder Capital Group was founded as a private partnership in August 2000 and was established to provide investment management solutions to institutional and high net worth clients. On July 21, 2009, the firm was renamed Lee Munder Capital Group, LLC ("LMCG") and LMCG became an affiliate of Convergent Capital Management LLC ("CCM"). CCM is a subsidiary of City National Corporation ("CNC"), a publicly held financial services company and bank, headquartered in Los Angeles.

Two investors individually own more than 25% of LMCG currently: CCM and Lee Paul Munder (through Rednum Family Investments, LP). While the majority of LMCG is owned by CCM, several employees retain a significant ownership position in the firm. LMCG is a board managed LLC, operated independently and autonomously from CCM and its other investment affiliates.

CCM and CNC are also the majority owners of a number of other investment advisory firms. By virtue of our affiliation with CCM, LMCG is affiliated with several asset management firms. LMCG does not conduct joint operations with any of these affiliated investment advisors and does not provide investment advice that is formulated, in whole or in part, by such affiliated firms. See Item 10 for additional information about our financial industry affiliations.

### **Advisory Services**

**Global MultiCap** provides clients an efficient and diversified portfolio of individual stocks and Exchange Traded Fund ("ETFs"). This is accomplished by employing a dynamic asset allocation process accessing the firm's institutional investment capabilities. The resulting portfolio consists of large, mid and small cap stocks and ETFs in the domestic and international asset classes.

**Institutional GARP** (Growth at a Reasonable Price) strategy selects companies with above-average earnings growth potential and reasonable valuations. We employ classic fundamental securities analysis to identify the highest quality companies in terms of competitive advantage, profit margin expansion, balance sheet strength, conservative accounting, corporate governance issues and management integrity.

**PIM (Private Investment Management) GARP** strategy selects companies with above-average earnings growth potential and reasonable valuations. The team employs classic fundamental securities analysis to identify the highest quality companies in terms of competitive advantage, profit margin expansion, balance sheet strength, conservative accounting, corporate governance issues and management integrity. PIM GARP is managed and customized for individual taxable clients. The different tax profile and often differing

investment time horizon of each client lead to differences in the types of investment themes pursued in portfolio strategy and in the turnover of the portfolio.

**Mid Cap Value** strategy applies a classic value investment style focusing on solid companies whose stock is temporarily out of favor in the market. The strategy emphasizes companies with higher returns on capital, free cash flow and strong balance sheets. These companies often dominate a particular industry niche. Generally these industries have significant barriers to entry and, as a result, are able to perpetuate a higher return on capital over time. Additionally, the strategy will invest in more cyclical companies with somewhat lower returns on capital when the market does not currently appreciate the company's long-term earnings.

**Small Cap and Small-Mid Cap Growth** strategies are based on the premise that high-quality, high-growth, small cap and mid cap companies provide an excellent base for long-term investment performance. The investment team uses a fundamental, bottom-up research approach that focuses on stock selection within the highest growth sectors of the economy.

**Small Cap Value** strategy applies a classic, value-driven philosophy based on the belief that leading businesses selling at a discount to fair value have the potential to generate excess returns. The team uses filter screens, which identify the least expensive stocks, followed by fundamental research to identify leading businesses selling at discounts to fair value. This entire process utilizes bottom-up security selection, while risk control measures insure security and sector diversification.

**International Equity** strategies are based on a disciplined process that seeks to add value primarily through stock selection. Country and sector tilts are moderate. The stock selection model was developed on evidence that there are market anomalies that exist and can be exploited to generate excess return. Risk in the portfolio is managed to ensure security and sector diversification.

**Emerging Markets** strategy is based on a bottom-up quantitative approach. It is intended to exploit inefficiencies in the market by identifying stocks with attractive valuations that also have good growth prospects and high quality of earnings. By selecting stocks that rank well on a variety of metrics, we are able to diversify the sources of alpha in the portfolio to achieve more stable returns and weather different market environments. Quantitative tools help manage risk to avoid unwanted style tilts. Stocks in the portfolio are roughly equal-weighted relative to the benchmark. The result is a well-diversified portfolio that is truly core and has exposure to both value and growth styles and invests across small, medium and large cap stocks.

**Fixed Income: Taxable and Tax Exempt** strategies seek income production, preservation of capital, and a total rate of return through investments in high quality individual issues. We customize laddered portfolios using individual bonds that are commensurate with the client's income needs, tax situation and risk tolerance. The use of mutual funds or ETFs is also utilized for some clients for the purpose of improving diversification and liquidity. LMCG fixed income products primarily include US Government, Corporate, Mortgage-backed, Asset-backed and Municipal securities.

**Balanced Portfolios** are constructed using active strategies in both the equity and the fixed income portions of the portfolios. Asset allocation weights are managed within ranges established in client investment guidelines. The fixed income portions of the balanced portfolios are generally managed by LMCG employees. Some clients' fixed income portion may be managed through a sub-advisory relationship with an unaffiliated sub-adviser.

**Global Market Neutral** strategy is a top-down quantitative approach to investing and invests in small to mid-sized companies in the U.S. and in mid-large sized companies in the developed countries. The investment team uses custom stock selection models developed for U.S. and International stock universes. The stock universe is the best combination of stock selection and short availability. Capital is invested in industries where stock selection model has proven to be most effective.

**Private Equity Management Services** provide a small number of clients with consulting services and review of fund investment vehicles. LMCG's program is focused on building highly customized programs and includes Consulting services, Fund of Fund capabilities and assistance in Direct/co-investments used to help clients build a diversified risk-managed portfolio of private equity and venture capital investments.

#### **Client Restrictions**

Clients invested in LMCG separately managed accounts may place restrictions upon the investments to be held in their portfolio (such as individual security/ticker restrictions, position restrictions, cash restrictions, etc.). When LMCG utilizes mutual funds and ETFs (or other such vehicles), LMCG's ability to avoid investments in a specific company or industry in accordance with a client's wishes may be limited at times. When investing in ETFs and mutual funds LMCG does not look through the underlying holdings for account-specific restrictions. LMCG will endeavor to educate clients as to the impact of restrictions placed on their account with respect to the specific securities held (or not purchased) or the allocation among various asset classes. Please also see Item 16 for additional information on client imposed restrictions.

#### **Sponsored Programs**

**Wrap Fee Programs:** LMCG currently participates in wrap fee advisory programs sponsored by unaffiliated advisors, broker-dealers or banks (collectively, the "Sponsors"). Under these programs, the Sponsors are responsible for selecting or facilitating the selection of advisers, pre-screening client suitability, most aspects of direct client servicing and operations. Clients of the Sponsors are provided separate account advisory services. Trades are generally placed with brokers specified by the Sponsors, although LMCG may use other brokers after considering the costs, efficiency, trade execution and other trading factors. Please also see Item 12 for information about how the direction of brokerage affects the management of the account.

Advisory fees earned by LMCG for wrap fee programs are covered under agreements with the Sponsors and are part of a single inclusive (wrap) fee charged by the Sponsor for investment advisory services, commissions, custody and administrative costs.

In determining whether to establish a wrap fee program account, a client should be aware that the overall cost to a client in a wrap fee program may be higher or lower than the client might incur by purchasing the strategies available in the wrap fee program directly from LMCG.

**Model Portfolio Programs:** LMCG provides certain clients who are investment advisors ("Model Clients") with one or more model portfolios for discrete asset classes. Each of these Model Clients uses the model portfolio(s) created by LMCG as the basis for investment strategies that they offer to their clients. LMCG does not create the model portfolio based upon the individual or particular needs of clients in the programs, or any other person, but based upon what LMCG believes is an appropriate allocation and weighting of securities for each strategy. LMCG's Model Clients have discretion to determine how and when to act upon the recommended changes to the model portfolio provided by LMCG and LMCG has limited or no trading authority in such arrangements.

**Other Strategies and Services:** LMCG anticipates becoming an Adviser to the Forum Funds Series Trust for the LMCG Global Market Neutral Fund and the LMCG Global MultiCap Fund. LMCG is also the investment manager for several collective funds for qualified pension and retirement plans under the Convergent Capital Institutional Master Trust with SEI Trust Company as the Trustee. LMCG is also a sub-adviser to a number of other mutual funds.

#### **Assets Under Management**

As of December 31, 2012, Lee Munder Capital Group, LLC had \$5.0 billion in assets under management and advisement. Discretionary assets under management represented \$4.4 billion; Non-Discretionary assets under management represented \$67.4 million and Advisory-Only assets under management represented \$495.0 million.

### **Item 5 - Fees and Compensation**

Standard fees are generally set for all LMCG strategies. Fees may be negotiable based upon factors including services required, size of assets to be managed, product type (including investment discipline and the medium for delivering the investment service, i.e., separate account, pooled structure, etc.), investment capacity, and size of overall relationship.

Generally, LMCG is compensated by its clients on the basis of assets under management computed and payable quarterly. Fees are calculated each quarter and one fourth of the annual amount is billed in arrears, unless the client prefers other arrangements. Clients may elect to be billed directly for fees or to authorize LMCG to directly debit fees from client accounts.

#### **Fee Schedule**

<u>Strategy</u>	<u>Standard Fee Range</u>
Large Cap Equity and Balanced	0.35%-1.20%
Mid Cap Equity	0.45%-0.85%
Small Cap and Small-Mid Cap Equity	0.65%-1.00%
International Large Cap Equity	0.55%-0.75%
International Small Cap and Emerging	0.75%-1.00%

Markets	
Global Equity	1.00%-1.50% (includes custody fee)
Fixed Income	0.30%-0.75%
Hedge Strategies	1.00%
Private Investment Partnerships	Available only to qualified purchasers

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

Mutual funds and ETFs also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to LMCG's fee, and LMCG shall not receive any portion of these commissions, fees, and costs. In many cases, the client could invest in the same mutual fund or ETF without paying a fee to us but would then not have the benefit of advice, review and monitoring we provide.

LMCG may manage funds for clients in a variety of investment styles including but not limited to equity, balanced, and fixed income. Clients for whom LMCG provides services in multiple styles may pay fees based upon an overall fee schedule for all styles/accounts, or may pay fees at different levels for each account or investment discipline.

LMCG may charge a flat fee for accounts where the account type, services provided, size of assets or similar factors indicate that a flat fee is appropriate. In addition, for accounts under a certain size, a minimum fee may be charged based on the specific type of account. Please also see Item 7 for additional information about minimum account sizes.

LMCG has entered into agreements with certain custodians, under which LMCG pays the custodian a fee for custodial services in connection with certain client accounts. In such cases, the management fee that the client pays to LMCG covers these custodial services, as set forth in the applicable client agreement. Thus, the management fee paid by these clients may be higher than it would be if the custodial services were not covered by the fee. It may cost a client more or less to purchase such services separately, depending on the size of the account and other factors. The amount that LMCG pays to the custodian is set forth in an agreement between LMCG and custodian and could change depending on the total level of assets covered by the agreement. Therefore, LMCG may have a conflict of interest because the actual amount of the custodial fee included at higher asset levels may decline, resulting in a higher portion of client fees being retained by LMCG. These arrangements do not cover brokerage charges; accounts will still be charged commissions or other transaction charges (typically on a per-share basis) in connection with securities transactions in addition to the management fee.

In certain situations, LMCG may generate more revenue from one client relationship than another depending on size of assets or fee structure including LMCG's opportunity to realize additional revenue from performance fees. To ensure fairness to all clients, LMCG has adopted



certain policies and follows certain procedures that are designed to prevent one account being favored over another. These procedures include side-by-side management controls including trade aggregation and allocation procedures which are detailed in Item 6.

### **ERISA Account Compensation**

U.S. Department of Labor regulation under ERISA requires that LMCG disclose information about direct and indirect compensation it reasonably expects to receive in connection with the investment management services it provides to employee benefit plans subject to ERISA. LMCG provides discretionary investment management services to ERISA plans as described generally in each Investment Management Agreement between the ERISA Plan and LMCG.

#### ***Direct Compensation***

LMCG receives an annual investment management fee, which is billed or invoiced to the responsible Plan fiduciary. The fee is paid in arrears from the assets of the Account or by the Plan sponsor, in its discretion and in accordance with the Plan documents. The amount of the fee is based on the value of the assets of the Account. Additional details regarding the investment management fees charged by LMCG are contained in each "Fee Schedule" incorporated in its Investment Management Agreement with clients.

#### ***Indirect Compensation***

*Soft Dollars* - LMCG receives proprietary and third-party research and brokerage services within the meaning of Section 28(e) of the Securities Exchange Act of 1934 from certain broker-dealers that execute securities trades. Such indirect compensation is expected to be within a range of approximately 20-30% of total commissions paid based on historic data. Proprietary research generally includes access to conferences, analysis, forecasts, and in-house research. This type of research does not have an identifiable monetary value, and the specific eligibility conditions for proprietary research (other than using the broker-dealer's services) are not shared with LMCG. Information regarding third party research and broker-dealers from whom such research was received for each ERISA Account is available upon request. Additional information about LMCG's soft dollar practices can also be found under Item 12 - Brokerage Practices.

*Gifts and Gratuities* - LMCG's gift and entertainment policy was adopted in accordance with applicable regulatory guidelines and is intended to help employees make appropriate decisions that are consistent with the best interests of LMCG's clients. LMCG employees are not permitted to solicit gifts, and extravagant or excessive entertaining is also prohibited. There is no agreement or arrangement between LMCG and third parties regarding the provision of gifts, meals, or gratuities to our employees that is based on LMCG's service agreement or arrangement with any particular client, and any such gifts, meals and gratuities are not received by our employees by reason of their services to any particular client. LMCG has determined that, under any reasonable method of allocation, any gifts and entertainment attributable to ERISA Plans are of insubstantial value.

#### ***Investment Related Disclosure***

The U.S. Department of Labor regulation also requires service providers to disclose certain additional information about entities and investments that are considered to hold "plan assets" of ERISA-covered plans as follows:

*Operating Expenses* - ERISA Accounts may be charged for brokerage commissions and other transaction related costs attributable to the Account's investments as described in each client's Fee Schedule and/or Investment Management Agreement with LMCG. Upon request, LMCG can also provide exact amounts applicable to each Account and such amounts are generally reflected on each client's account statements and reports.

#### ***Compensation for Termination of Contract***

LMCG will not receive a termination fee if an agreement is terminated. Each Fee Schedule and Fee Section incorporated into the Investment Management Agreement between LMCG and each Plan sets forth the terms under which accrued fees are payable upon termination.

#### ***Questions; Additional Information***

This information is being provided to comply with the disclosure requirements of ERISA Section 408(b)(2) and the Regulation and is not intended as an offer or solicitation with respect to the purchase or sale of any of the products or services described or referred to herein. Any document referenced herein is also available upon request. Any questions about these ERISA disclosures and any requests for different or additional information should be directed to LMCG's Compliance Office by e-mail at [compliance@leemunder.com](mailto:compliance@leemunder.com) or by calling us at (617) 380-5600.

#### **Sponsored Programs**

Advisory fees earned by LMCG for wrap fee programs are covered under agreements with the Sponsors and are part of a single inclusive (wrap) fee charged by the Sponsor for investment advisory services, commissions, custody and administrative costs.

For model portfolios, LMCG is compensated based upon agreements with each Model Client for the specific models provided.

#### **Termination of Accounts**

Notice provisions for termination of an advisory relationship are provided for in the investment management agreement and can be negotiated when establishing an advisory relationship. If advisory services are delivered through a partnership then the terms of termination of the partnership agreements apply.

For those accounts that pay quarterly in arrears, any earned, unpaid fees will be due and payable at the time an account is closed. The amount of fees will be based on the account value on the date of termination and will be pro-rated for the number of days in the quarter the account was open. For those wrap accounts that currently pay quarterly in advance, fees will be prorated and adjusted based upon any new accounts started and accounts terminated and any over/under payment will be reflected in the next quarterly payment. LMCG also reserves the right to negotiate other methods of determining final account valuation and fees with our clients.

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

In some cases, LMCG has entered into performance fee arrangements for its services with qualified clients. Such fees are subject to individualized negotiation with each such client and will be in accordance with applicable Federal regulations. Such fees would be tailored to specific client circumstances, and as such, there is no standard performance fee schedule.

In measuring clients' assets for the calculation of performance-based fees, LMCG will include income, dividends, and realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for LMCG to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. LMCG has adopted procedures designed to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 - Types of Clients**

LMCG provides investment advice to taxable and non-taxable, foreign and domestic clients including but not necessarily limited to individuals, high net worth individuals, corporate pension and profit-sharing plans, ERISA plans, Taft-Hartley plans, charitable institutions, foundations, endowments, public employee retirement systems, registered mutual funds, collective investment funds, private investment funds, trust programs and other U.S. and international institutions.

LMCG's minimum account sizes, subject to account characteristics and client service requirements, are:

Equity separately managed institutional accounts	\$3.0 million
High net worth individual accounts	\$1.5 million
Fixed income accounts	\$0.75 million
Global MultiCap accounts	\$0.5 million

Minimums may be waived depending on the proposed account size, style, other relationships and other factors.

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

At LMCG, various portfolio construction and risk assessment skills are applied in managing portfolios across a broad risk/return spectrum. Throughout the investment process emphasis is on fundamental analysis and/or quantitative disciplines in an effort to produce attractive returns relative to agreed upon benchmarks and/or risk levels.

Information is gathered from trade associations; academic and government publications; discussions with company management, technical and scientific specialists and consultants; and from commercially available news services and market quotations. Such information is

assimilated by the professional staff and used in our internal assessment of the investment environment and in our equity research.

Investment strategy risk is evaluated in the following contexts:

- 1) Consistency with portfolio risk: The Chief Investment Officer ("CIO") and investment teams review both ex-ante risk (primarily using a quantitative tool) and ex-post risk (primarily using a portfolio analytics tool). The objective of ex-ante risk analysis is to determine if there are any concentrations of factor exposures (includes industry, style, fundamental bias, country, currency among others) that are unusually significant given the stated objectives of the strategy. The CIO will typically consult with the portfolio manager to confirm that the unusual concentrations were intended and for investment justification. The objective of ex-post risk analysis is primarily to evaluate team skill during varying market environments. The CIO uses these analyses as the basis for investment team reviews and for reports to the Management Committee and to the LMCG Board.
- 2) Consistency with portfolio construction: single stock concentration risk, adherence to economic sector bands, aggregate fundamental measures relative to benchmarks and absolute levels are reviewed.
- 3) Credit quality exposure and concentration: consistency with client guidelines as well as adequacy of information and adequacy of liquidity are reviewed by the fixed income team for all fixed income assets.
- 4) Dispersion of accounts: consistency of management is reviewed quarterly for accounts that are within major product composites. Accounts that are customized are reviewed semi-annually for dispersion relative to individualized targets.

### **Investment Review Committee**

LMCG's Investment Review Committee is comprised of the senior management of the firm, is chaired by the CIO, and meets on a quarterly basis. Among the issues reviewed by the Investment Review Committee are: each product's adherence to its investment style; quantitative reports that measure adherence to the defined investment style; evidence of adherence to buy/sell discipline, turnover, and individual stock/portfolio summary fundamental characteristics; and performance relative to the benchmark and peer group performance comparisons.

### **Risk of Loss**

All investments have risks to some degree and it is possible that clients could lose money by investing in an LMCG strategy. An investment in an LMCG strategy is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. While each LMCG strategy makes every effort to achieve its objective, it cannot guarantee success. Past performance does not guarantee future results.

**Equity securities risk:** There is the risk that the value or price of a particular stock or other equity or equity-related security could go down and money could be lost. In addition to an

individual stock losing value, the value of the equity markets or a sector of those markets in which a strategy invests could go down.

**Small company risk:** The shares of small companies tend to trade less frequently than those of larger, more established companies, which can have an adverse effect on the pricing of these securities and on a strategy's ability to sell these securities. Changes in the demand for these securities generally have a disproportionate effect on their market price, tending to make prices rise more in response to buying demand and fall more in response to selling pressure.

**Fixed Income risk:** The market value of fixed income investments changes in response to interest rate changes and other factors. During periods of falling interest rates, the values of fixed income securities generally rise and during periods of rising interest rates, the values of those securities generally fall. While securities with longer maturities tend to produce higher yields, the prices of longer maturity securities are also subject to greater market fluctuations as a result of changes in interest rates.

**ETF risk:** An ETF is a registered investment company that seeks to track the performance of a particular market index. Investing in an ETF generally offers instant exposure to an index or a broad range of markets, sectors, geographic regions or industries. When investing in ETFs, shareholders bear their proportionate share of the Fund's expenses. An investment in an ETF exposes a client to the risks of the underlying securities in which the ETF invests. Also, although ETFs seek to provide investment results that correspond generally to the price and yield performance of a particular market index, the price movement of an ETF may not track the underlying index.

**Foreign investment risk:** Investment in foreign securities generally involve more risk than investing in securities of U.S. issuers. Changes in currency exchange rates may also affect the value of foreign securities held; securities of issuers located in emerging markets tend to have volatile prices and may be less liquid than investments in more established markets; foreign markets generally are more volatile than U.S. markets, are not subject to regulatory requirements comparable to those in the U.S., and are subject to differing custody and settlement practices; foreign financial reporting standards usually differ from those in the U.S.; foreign exchanges are smaller and less liquid than the U.S. market; political developments may adversely affect the value of a Portfolio's foreign securities; and foreign holdings may be subject to special taxation and limitations on repatriating investment proceeds.

**Market and management risk:** Markets may experience volatility and go down in value, possibly sharply and unpredictably. All decisions by LMCG require judgment and are based on imperfect information. Additionally, the investment techniques, risk analysis and investment strategies used by LMCG in making investment decisions may not produce the desired results.

**Liquidity and valuation risk:** From time to time, an LMCG strategy may hold one or more securities for which there are no or few buyers and sellers or which are subject to limitations on transfer. LMCG may have difficulty disposing of those securities at the values determined by LMCG for the purpose of determining net asset value, especially during periods of significant redemptions.

In certain accounts, LMCG is permitted to trade forward contracts, options and futures on currency, financial futures contracts and options on such futures contracts. A change in the level of interest rates, securities prices, currency exchange rates or the rate of inflation may affect the value of a client's securities (or of securities that LMCG expects to purchase on behalf of the client). LMCG believes that forward contracts, currency options, futures contracts and options thereon may provide an effective mechanism for increasing or decreasing interest rate, currency and general market exposure in changing markets.

Any financial futures or related options transactions engaged in for a client's account will be incidental to LMCG's securities investment advisory business. Depending on the particular regulatory requirements and contractual terms applicable to such client, such transactions may be conducted (i) for hedging purposes, (ii) subject to a maximum level of aggregate initial margin and premiums or a maximum aggregate net notional amount of positions, (iii) to recreate exposure to the market in which the assets would otherwise be invested, or (iv) for other conservative portfolio management reasons.

### **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of LMCG or the integrity of its management. LMCG has nothing to disclose under this item.

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

LMCG is majority-owned by Convergent Capital Management LLC ("CCM"), a holding company wholly-owned by City National Corporation ("CNC"). CCM also directly and indirectly owns and maintains ownership interests in other asset management firms. CCM makes available to its affiliates opportunities for cooperative purchasing of certain administrative programs and products. LMCG operates independently from CCM and CNC, and each of their investment advisory affiliates does not conduct joint operations with any of these affiliated investment advisers and does not provide investment advice that is formulated, in whole or in part, by such affiliated investment advisers.

CNC also owns City National Bank. LMCG may occasionally recommend the custodial services of City National Bank, which include trust services that certain clients may need. Please also see Item 15 for additional information about custodial services of City National Bank.

City National Securities ("CNS") is a broker-dealer which is affiliated with LMCG through common ownership by CNC. LMCG does not trade any client accounts through CNS and the LMCG employee does not receive any compensation from that firm.

LMCG anticipates entering into distribution and service agreements with Foreside Fund Services, LLC, a dually registered broker-dealer, to provide certain services as the principal underwriter and distributor of the shares of certain open-end mutual funds where LMCG will

be the Adviser, including the licensing of certain LMCG employees as registered representatives.

All investment management arrangements with related parties are conducted on an arms-length basis so as to neither advantage nor disadvantage LMCG's other clients or LMCG's related parties. LMCG has related persons who are General Partners in various private investment partnerships organized as limited partnerships in which client funds are invested. These partnerships provide alternative investment opportunities for qualified investors.

Members and employees of LMCG may buy or sell for themselves investments that are also recommended to LMCG clients or purchased for client accounts. In addition, LMCG may buy or sell for client accounts securities or other investments in which LMCG or a related person has a financial interest. All client accounts will be treated in a fair and equitable manner. LMCG and its officers and employees (and their families) may invest along with other investors in products, including mutual funds, proprietary funds, or other commingled vehicles, for which LMCG or an affiliate is the investment adviser or the sub-adviser.

### **Item 11 - Code of Ethics**

LMCG has adopted a Code of Ethics describing its standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees must acknowledge the terms of the Code of Ethics annually, or as amended.

The goal of LMCG's Code of Ethics and the Firm's policies, procedures and organizational structure is to establish standards and corresponding processes that put the interests of LMCG's clients first; ensure that no client or account is favored over another; and identify and disclose conflicts of interest as they relate to personal interests of individuals in the firm and/or competing interests of clients that could occur as the result of relationship size or fee structure.

In appropriate circumstances, consistent with clients' investment objectives, LMCG may trade or recommend the purchase or sale of securities in which LMCG, its affiliates and/or clients, directly or indirectly, have a position of interest.

Subject to LMCG's Code of Ethics and applicable laws, officers, directors and employees of LMCG may trade for their own accounts in securities which are recommended to and/or purchased for LMCG's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of LMCG's employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of LMCG's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some



circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored and the Code of Ethics is designed to reasonably prevent conflicts of interest between LMCG and its clients.

LMCG's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting LMCG's Compliance Office or e-mailing [compliance@leemunder.com](mailto:compliance@leemunder.com).

## **Item 12 – Brokerage Practices**

It is LMCG's policy to seek the best combination of net price and execution under the circumstances ("best execution") for client accounts. LMCG may achieve best execution through proper management of broker selection, trade execution and use of commissions. LMCG will seek to obtain the best overall qualitative execution available given the particular circumstances by considering the full range and quality of a brokerage services, including: quality of execution, volume of trading done by a broker in a particular security, willingness to commit capital, financial stability, clearance and settlement procedures, and other factors. LMCG's traders are generally aware of the prevailing range of commission rates for any given type of trade, and they will select brokers and negotiate commissions depending on the complexity of the trade, the market environment and the liquidity of the stock.

Fixed Income securities are generally purchased from a market maker acting as principal on a net basis with no brokerage commission paid by the client. Such securities also may be purchased in public offerings from underwriters at prices which include underwriting commissions and fees. Trades in the secondary market are executed on a competitive basis whenever possible. LMCG manages numerous fixed income accounts, some with similar or identical guidelines and some with different guidelines, which may trade in the same securities. Portfolio decisions with respect to purchases and sales of fixed income securities may be similar or different from account to account.

LMCG may pay a broker-dealer who furnishes brokerage and/or research services a commission that is in excess of the commission another broker-dealer would have received for executing the same transaction if it is determined that such commission is reasonable in relation to the value of the brokerage and/or research services which have been provided to LMCG as a whole and in which clients benefit.

LMCG has a Trading Oversight and Soft Dollar Committee which is appointed by the Management Committee to be made up of the Head of Trading, the CIO, the Chief Compliance Officer and a representative group of portfolio managers and research analysts. LMCG's Trading Oversight and Soft Dollar Committee conducts quarterly reviews of the firm's execution, brokerage selection, trading activity and trends.

In addition, the committee may consider the provision of research and other services by the broker to LMCG. Accordingly, transactions may not always be executed at the lowest possible commission cost but commissions will generally be within a competitive range for that type of transaction.



LMCG may enter into arrangements where commissions are used to provide research or execution related services to LMCG. The services may include research, trading and other similar applications. LMCG evaluates and determines that these services qualify as research services as provided in the Section 28(e) safe harbor of the Securities Exchange Act of 1934. Research services furnished by direct research providers or third party research providers may be used by LMCG for any or all of its clients. In addition, research services may be used in connection with accounts other than those whose commissions were used to pay for such research services. Research services that LMCG purchases may benefit all clients including clients who specify that their brokerage be directed to a specific broker. These clients may receive the benefits of such services without paying for them. If a portion of these services is used for non- research or trade execution related purposes LMCG will pay for those services with its own funds.

Currently such research related services include:

- fundamental company, security and industry analysis;
- quantitative research;
- economic data and forecasts;
- on-line research services;
- risk control systems;
- attendance at quantitative and fundamental research seminars;
- analysis of financial and market conditions;
- quotation services;
- valuation tools; and
- statistical services.

LMCG may use commission sharing arrangements ("CSA") that allow LMCG to separate out the execution and research components of a trade. LMCG is able to trade through an electronic communication network ("ECN") or crossing network at a low commission rate and still generate research credit. LMCG uses the CSAs to pay broker dealers that provide research and brokerage services that qualify as research services as provided in the Section 28(e) safe harbor of the Securities Exchange Act of 1934. LMCG does not use CSAs to pay for any third party independent services, so called "soft dollar services."

Another method LMCG employs to potentially improve the execution it obtains while trading is the use of step-out transactions. In a step-out transaction LMCG places a block trade with a broker-dealer with the instruction that the broker-dealer execute the entire transaction but "step out" of a portion of the trade in favor of a different broker-dealer that may have an arrangement with a client or may provide research products or services to LMCG. This allows directed brokerage accounts to participate in larger block transactions and get the same execution price. While it is difficult to quantify the actual improvement in execution that results from step out trades, LMCG believes that clients benefit from participating in block transactions to the extent possible.

### **Directed Brokerage and Trade Rotation**

Clients who do not grant LMCG full discretion in selecting broker-dealers and in negotiating commissions on their behalf and direct the use of specific brokers must understand that:

- LMCG may or may not be able to negotiate commission rates on their behalf and, as a result, the client may pay higher commissions;
- They may lose the possible advantage which non-directed clients derive from the aggregation of orders for multiple clients as a single “batched” transaction;
- They may be deprived of research related products and services available from other brokers;
- If the designation of brokerage direction is from the client being referred by the broker/dealer, a potential conflict of interest may arise between the client’s interest in obtaining the best price and LMCG’s interest in receiving future referrals from the broker/dealer; and,
- Trades where clients direct to particular brokers are generally executed after trades for which LMCG has full brokerage discretion.

LMCG’s policy is designed to provide a fair and equitable method of trade rotation in placing trades for all client accounts. Depending on the liquidity of a security and the size of the transaction, among other factors, LMCG may utilize a trade rotation process where one group of clients may have a transaction effected before or after another group of clients so as to limit the market impact of the transaction. LMCG’s trade rotation policies are at the discretion of the trading desk and typically utilize a random selection process intended to equitably allocate transactions over time across its client base by investment strategy so that each group of clients can expect to receive executions at the beginning, middle and the end of the rotation. LMCG treats Advisory Programs (Wrap Fee Programs and Model Portfolios) as client directed brokerage accounts. Trades placed for accounts in Advisory Programs are executed after such trades are executed in directed accounts. Please also see Item 4 for additional trading details for Advisory Programs.

LMCG uses Abel Noser, a third party monitoring service, to assist us with evaluating the effectiveness and efficiency of trade execution. Abel Noser provides LMCG with a set of standard quarterly reports that measure the transaction costs using several metrics. The results are presented to the Trade Oversight and Soft Dollar Committee on a quarterly basis.

#### **Trade Allocation and Aggregation**

LMCG will aggregate contemporaneous buy or sell orders for segregated client accounts only if LMCG has determined, on the basis of each individual account, that the aggregated securities trading process is: in the best interest of each client participating in the order; consistent with LMCG’s duty to obtain best execution; has been disclosed; and is consistent with the terms of the investment advisory agreement of each participating client.

LMCG acknowledges that managing client accounts (1) where performance based fees may be received, or (2) a portfolio manager (“PM”) employed by LMCG is invested in proprietary funds managed by LMCG or an affiliate, or (3) where a relationship may exist between a PM and a client, may create the potential for conflicts with other client accounts. LMCG’s procedures are designed to address these conflicts as well as ensure equitable treatment for all accounts as LMCG employs aggregation in pursuit of best overall trade execution.

A PM may buy or sell a security for an account he/she manages while not contemporaneously buying or selling the same security for another client account(s) he/she concurrently manages if he determines that such security is not appropriate for the other account(s). Such factors the PM may consider include client restrictions, available cash, sector weightings of the portfolio, applicable regulatory rules (including FINRA IPO restricted persons rules), position weighting desired, client specific investment objectives, and other relevant factors.

LMCG recognizes that the needs and expectations of a typical private client account may be different than an institutional client and therefore may require a more customized approach to account management. Depending on the nature of the relationship and the objective of a private client account LMCG, where practical, will combine trades across private client accounts in order to achieve cost or research benefits. There may be certain situations (e.g., client directives, specific private client needs or the necessity to discuss transactions prior to execution) where a PM may not be able to combine trades, resulting in a higher cost of execution to the client.

In no event shall one client be given preference over another client for the allocation of trades on the basis of factors not driven by the appropriateness of the investment in that security under the circumstances at that time. In particular, a client's fee arrangements (i.e., performance fee, proprietary accounts, etc.) shall in no instance determine the allocation or appropriateness of an investment. Any investment by one client shall not be dependent or contingent upon the willingness or ability of another client to participate in such order.

The allocation of securities bought or sold in an aggregated order will generally be done pro rata based upon the original orders submitted, or indications of interest submitted. Allocations of orders may be made to one particular client in excess of or below the amounts which would have been determined above if a client has a unique investment objective and the security being acquired meets that investment objective, or if the allocation would be too small to establish a meaningful position for the client in that security. Trading will seek approval from compliance on revised allocations.

Long and short sale orders submitted to the trading desk at the same time by different PMs on behalf of a hedge fund and other client accounts will be executed concurrently (i.e., no prescribed order).

### **Limited Opportunities**

From time to time, LMCG may have the opportunity to acquire securities for itself or its clients as part of an initial public offering or a secondary offering (collectively referred to as an "offering"). PMs may submit an indication of interest for selected accounts after taking into account factors such as, but not limited to; the clients investment objectives, risk tolerance, available cash, current portfolio composition and related matters. Indications of interest will be made by the PMs for the specific investment styles or accounts, and LMCG's trading personnel will aggregate those indications for submission to the offering dealer. In the event that LMCG receives fewer securities than the number for which the order was placed, allocations will be

made generally on a pro rata basis consistent with each account's indication of interest. If such allocations are deemed insignificant, too small from which to build a further position, or not cost beneficial for an account, the PM for such account may "opt out" of the allocation, in which case those shares will be reallocated to the remaining participating clients. Share amounts allocated may also be rounded to the nearest lot.

LMCG has performance fee arrangements with some clients. LMCG believes that its policies with respect to allocation of investment opportunities are designed to mitigate the potential conflict of interests that may arise in such allocations. As with all matters relating to performance, there can be no assurances that IPO's will be available in the future, that such IPO's will be suitable for client accounts, or that the aftermarket price performance of IPO's will reflect that which has occurred in the past.

## **Item 13 – Review of Accounts**

### **Internal Account Reviews**

LMCG performs internal reviews of accounts both on an ad hoc and formal basis. The formal review of accounts is conducted during the Investment Review Committee meetings which are held at least quarterly. The Investment Review Committee will perform quarterly reviews of the strategies being marketed or managed by LMCG. Every strategy will be reviewed at least once annually. The content of these meetings typically comprise a review of each of the risk items described in Item #8 as well as commentary by investment teams of business and investment items which are significant to the conduct of their business.

Ad hoc internal reviews typically are held as a result of unusual market conditions which cause divergence of performance of either model portfolios or representative portfolios. Unusual patterns of returns are investigated either through investment systems or through direct interaction with investment teams.

### **External Account Reviews**

Account reviews are normally scheduled at the request of the client or LMCG and generally include the portfolio manager and/or a client service officer. In some cases, the frequency of account review is agreed upon as part of the client's investment guidelines. Client reports are generally sent on a quarterly basis in which the strategy and performance are reviewed. The number of accounts assigned to a portfolio manager varies depending on the capacity of the strategy, the client base and the relative requirements of the clients.

As a general policy, clients are provided with quarterly reporting which includes market commentary, a list of holdings with cost and market value for each security and performance results. Additional reports such as realized gains and losses, purchases and sales and transaction summaries are available upon client request.

Where LMCG has responsibility for determining value for a product or for assigning value in determining performance measurement or deriving market value for purposes of calculating fees, LMCG has written policies governing its valuation methodology. A copy of the policies is available upon request.

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

In exchange for commissions generated by discretionary trading activity, LMCG receives research services from a variety of brokerage firms. LMCG may also direct brokerage to firms who refer clients to the firm. Please also see Item 12 for a description of the services and benefits LMCG receives from brokerage firms.

LMCG has entered into a number of solicitation agreements to include: MML Investors Services, Inc., Commonwealth Financial Network, Credit Union Enhancements LLC, Investment Professionals, Inc., LPL Financial LLC, Sylvest Advisors, LLC, (“Solicitors”). LMCG compensates these Solicitors for their solicitation services. Clients introduced to LMCG by Solicitors pay fees under a different fee schedule than clients who are not introduced by Solicitors and therefore will pay a higher investment management fee.

LMCG anticipates entering into an agreement with Foreside Fund Services, LLC whereby LMCG will compensate Foreside for underwriting, distribution and related support services.

LMCG’s own marketing incentive policy provides, at LMCG’s expense, marketing incentives to its employees.

#### **Item 15 – Custody**

LMCG does not take possession of client funds or securities, nevertheless LMCG has custody of some client assets through the direct debiting of management fees from client custodial accounts, sponsorship of pooled investment vehicles, or service by an employee as trustee for client accounts.

The Custody Rule requires advisers that are deemed to have custody of client funds and securities to maintain those funds and securities with a “qualified custodian” in an account either under the client’s name or under the adviser’s name as agent or trustee for its clients. A “qualified custodian” is a regulated financial institution that customarily provides custodial services, including banks, savings associations, broker-dealers, and in some cases, futures commission merchants.

LMCG provides investment management services only and does not provide the physical safe keeping of client assets as provided by a qualified custodian. It is LMCG’s general policy to require its clients to use a third party custodian and when asked, LMCG will recommend custodians to clients. LMCG has established procedures to avoid being deemed to have

custody other than in limited circumstances mentioned above. In certain circumstances, client assets are held by a related entity, City National Bank, which is operationally independent of LMCG. We do not share personnel, office space or access to assets with this custodian or any other.

LMCG clients should receive statements at least quarterly from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets. LMCG urges its clients to carefully review such statements and compare such official custodial records to the account statements that LMCG may provide its clients. LMCG's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

LMCG generally receives discretionary authority from its client at the outset of an advisory relationship. The authority is granted in the investment advisory agreement and allows LMCG to select the identity and amount of securities to be bought or sold. LMCG exercises such discretion in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, LMCG observes the investment policies, limitations and restrictions of the clients for which it advises. Client imposed restrictions may affect LMCG's ability to perform our stated investment strategy and therefore, investment performance may deviate from other accounts managed in accordance with the same strategy. For registered investment companies, LMCG's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to LMCG in writing. Please also see Item 4 for additional details on client restrictions.

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

Clients may obtain a copy of LMCG's complete proxy voting policies and procedures upon request. LMCG's authority to vote the proxies of our clients is established by our advisory contracts or comparable documents. LMCG has adopted policies governing the voting of proxies on behalf of client accounts. Clients may request LMCG to vote such proxy statements on their behalf or clients may retain such voting responsibility. It is LMCG's general policy that when given authority to vote proxies for a client, LMCG must be authorized to vote all proxies for the account in our discretion. LMCG does not generally accept partial voting authority or instructions from clients on how to vote on specific issues.

Certain clients may direct us to vote proxies in accordance with a specific set of guidelines or recommendations appropriate to their circumstances in which case we will not have voting discretion but will vote in accordance with a client's direction. Our clients may wish to retain

proxy voting authority and vote their own proxies if necessary in order to satisfy their individual social, environmental or other goals.

When clients have directed LMCG to vote proxies on their behalf, proxy voting guidelines are provided to clients when a client's account is set-up. When a LMCG client engages in a securities lending program, if a security is on loan on the record date, the proxy for that security generally cannot be voted. Clients may also obtain information from LMCG about how LMCG voted any proxies on behalf of their account(s). LMCG may abstain from voting a client proxy if, in its opinion, the value obtained by voting the proxy is outweighed by the unique cost or the operational or trading constraints to a client account or situation. LMCG employs a third party vendor to assist with monitoring and completing the proxy voting policy. LMCG recognizes that the potential for conflicts of interest could arise in situations where we have discretion to vote client proxies and where LMCG has material business relationships, material personal or family relationships, or in the event that LMCG holds a security issued by a client in client portfolios. To address these potential conflicts we have established a Proxy Voting Committee ("Proxy Committee"). The Proxy Committee will use reasonable efforts to determine whether a potential conflict may exist, including maintaining a list of clients or securities that may pose a potential conflict. The Proxy Committee will meet to decide how to vote the proxy of any security with respect to which LMCG has identified a potential conflict. Clients may contact the Compliance Office via e-mail at [compliance@leemunder.com](mailto:compliance@leemunder.com) for a copy of our current proxy voting policies or to obtain a record of how we voted the proxies for their account.

### **Class Actions**

From time to time LMCG receives notices with respect to securities held or previously held in client portfolios that become subject to legal proceedings including class actions or bankruptcies. Generally, it is LMCG's policy not to take any action or provide any legal advice with respect to these legal proceedings.

## **Item 18 – Financial Information**

LMCG has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

## **Item 19 – Additional Information**

### **Disaster Recovery**

LMCG's disaster recovery plan addresses the critical components of communications, access to data, and trading. LMCG facilitates business continuity with fail-over communication services, remote access capability, and redundant data storage. The Director of Operations is responsible for all aspects of the disaster recovery plan, including evaluating and testing the plan. In this role, he will be assisted by the CFO, CCO, IT personnel, where applicable.

### **Privacy**

LMCG has adopted policies and procedures relating to the disclosure of investment portfolio information and the collection of confidential and private client information, in accordance with federal and state regulatory requirements. Client account information is secured and policies and procedures outlining LMCG's Privacy and Security Policies are provided to clients as required or when requested.

### **Performance**

LMCG claims compliance with the Global Investment Performance Standards (GIPS®). LMCG's performance is examined by an independent third-party verifier.