

## **Item 1. Cover Page**

### **Part 2A of Form ADV Firm Brochure**

March 31, 2013

#### **DLS Capital Management, LLC**

SEC File No. 801-70534

2275 Half Day Road, Suite 135  
Bannockburn, IL 60015

phone: 847-282-3800  
email: [tmaurer@dlscapital.net](mailto:tmaurer@dlscapital.net)  
website: [www.dlscapital.net](http://www.dlscapital.net)

This brochure provides information about the qualifications and business practices of DLS Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at [tmaurer@dlscapital.net](mailto:tmaurer@dlscapital.net). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State Securities Commission. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

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

## **Item 2. Material Changes**

This Firm Brochure is our disclosure document prepared according to new regulatory requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

## Item 3. Table of Contents

|          |  |    |
|----------|--|----|
| Item 1.  | Cover Page.....  | 1  |
| Item 2.  | Material Changes.....  | 2  |
| Item 3.  | Table of Contents.....   | 3  |
| Item 4.  | Advisory Business.....   | 5  |
| A.       | Description of Your Advisory Firm.....   | 5  |
| B.       | Description of Advisory Services Offered.....  | 5  |
| C.       | Client-Tailored Services and Client-Imposed Restrictions.....                              | 6  |
| D.       | Wrap Fee Programs.....   | 6  |
| E.       | Client Assets Under Management.....  | 6  |
| Item 5.  | Fees and Compensation.....   | 7  |
| A.       | Methods of Compensation and Fee Schedule.....  | 7  |
| B.       | Client Payment of Fees.....  | 7  |
| C.       | Additional Client Fees Charged.....  | 8  |
| D.       | Prepayment of Client Fees.....   | 8  |
| E.       | External Compensation for the Sale of Securities to Clients.....                           | 8  |
| Item 6.  | Performance-Based Fees and Side-by-Side Management.....                                    | 9  |
| Item 7.  | Types of Clients.....  | 10 |
| Item 8.  | Methods of Analysis, Investment Strategies, and Risk of Loss.....                          | 11 |
| A.       | Methods of Analysis and Investment Strategies.....   | 11 |
| B.       | Investment Strategy and Method of Analysis of Material Risks.....                          | 18 |
| C.       | Concentration Risk.....  | 21 |
| Item 9.  | Disciplinary Information.....  | 22 |
| A.       | Criminal or Civil Actions.....   | 22 |
| B.       | Administrative Enforcement Proceedings.....  | 22 |
| C.       | Self-Regulatory Organization Enforcement Proceedings.....                                  | 22 |
| Item 10. | Other Financial Industry Activities and Affiliations.....                                  | 23 |
| A.       | Broker-Dealer or Representative Registration.....  | 23 |
| B.       | Broker-Dealer or Representative Registration.....  | 23 |
| C.       | Material Relationships Maintained by this Advisory Business and Conflicts of Interest..... | 23 |

|          |   |    |
|----------|---|----|
| D.       | Recommendation or Selection of Other Investment Advisors and Conflicts of Interest.....   | 24 |
| Item 11. | Code of Ethics.....   | 25 |
| A.       | Code of Ethics Description.....   | 25 |
| B.       | Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest .....                              | 25 |
| C.       | Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest .....                                | 26 |
| D.       | Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest..... | 26 |
| Item 12. | Brokerage Practices .....   | 28 |
| A.       | Factors Used to Select Broker-Dealers for Client Transactions.....  | 28 |
| B.       | Aggregating Securities Transactions for Client Accounts.....  | 33 |
| Item 13. | Review of Accounts .....  | 36 |
| A.       | Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved.....                           | 36 |
| B.       | Review of Client Accounts on Non-Periodic Basis.....  | 36 |
| C.       | Content of Client-Provided Reports and Frequency.....   | 36 |
| Item 14. | Client Referrals and Other Compensation.....  | 37 |
| A.       | Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest .....                           | 37 |
| B.       | Advisory Firm Payments for Client Referrals.....  | 37 |
| Item 15. | Custody .....   | 38 |
| Item 16. | Investment Discretion.....  | 39 |
| Item 17. | Voting Client Securities .....  | 40 |
| Item 18. | Financial Disclosures .....   | 41 |
| A.       | Balance Sheet.....  | 41 |
| B.       | Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients .....                   | 41 |
| C.       | Bankruptcy Petitions During the Past Ten Years .....  | 41 |

## Item 4. Advisory Business

### A. Description of Your Advisory Firm

DLS Capital Management, LLC ( "DLS Capital" and/or "the firm"), was founded in January of 2006 and registered as an investment adviser in September 2009. The firm is principally owned by its managing member, David Steinberg.

### B. Description of Advisory Services Offered

DLS Capital, an independent investment management firm, provides discretionary asset management services to individuals, high-net-worth individuals, pooled investment vehicles, trusts, estates, charitable organizations and foundations, corporations, and other legal entities. The firm offers a global investment strategy, investing in domestic and foreign securities that are selling at significant discounts to their intrinsic value based upon historical multiples of cash flows, normalized cash flow (where there is an expectation that historical levels of cash flow will return), or where the assets are being valued below their asset liquidation value.

#### B.1. Discretionary Asset Management Services – Equity Portfolios

Typically DLS Capital will invest in "fallen angels"—underperforming companies in solid industries, companies experiencing price dislocation relative to their operating earnings, and companies experiencing financial stress or distress. Accordingly, DLS Capital may invest in companies involved in acquisitions, capitalizations, consolidations, and bankruptcies. Although the primary emphasis of DLS Capital will be on public equity investments, the firm may invest client assets in bank debt, bonds, convertible securities, preferred equities, and alternative assets such as structured finance vehicles and trade claims in global markets.

DLS Capital's discretionary asset management services are predicated on the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. DLS Capital will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance and implement a portfolio consistent with such investment objectives, goals, risk tolerance, and related financial circumstances. DLS Capital may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients. In addition, DLS Capital may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

In addition to providing DLS Capital with information regarding their personal financial circumstances, investment objectives, and tolerance for risk, clients are required to provide DLS Capital with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify DLS Capital of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals, and tolerance for risk. On a quarterly basis, DLS Capital's reports to clients will remind clients of their obligation to inform DLS Capital of any such changes or any restrictions that should be imposed on the management of the client's account. DLS Capital will also contact clients at least annually to determine

whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

DLS Capital does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Client Assets Under Management**

As of December 31, 2012, DLS Capital has \$265,000,000 of discretionary client assets under management.

## Item 5. Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset Management Fees

The annual fee for services provided by DLS Capital will be charged as a percentage of assets under supervision by the firm charged quarterly in arrears.

| <u>Assets Under Supervision</u>           | <u>Annual Fee Rate*</u> |
|---|-------------------------|
| All Separately Managed Account Portfolios | 1.0%                    |

\* Fees are negotiable.

DLS Capital generally requires a minimum account size of \$250,000. For accounts with portfolio values less than \$250,000, clients may be able to receive comparable services at more favorable pricing elsewhere. DLS Capital, in its sole discretion, may waive the required minimum. The client authorizes the custodian to automatically deduct the advisory fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. DLS Capital may modify the fee at any time upon 30 days' written notice to the client.

Asset-based fees are always subject to the investment advisory agreement between the client and DLS Capital. Such fees are charged quarterly in arrears. The client will be invoiced at the end of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of such quarter, as mutually agreed upon by the client and DLS Capital. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter.

A client investment advisory agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any earned, unpaid fees will be immediately due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### B. Client Payment of Fees

DLS Capital will not take custody or possession of client funds or securities at any time except to the extent that the firm may deduct fees directly from the client's account. DLS Capital's fees will be billed directly to and paid from the client's account by the custodian of the portfolio.

DLS Capital will deduct its advisory fees directly from the client's account provided that

- the client provides the qualified custodian written authorization;
- a bill is sent in advance to the client;

- the bill shows the amount of the fee, how it was calculated, and the value of the assets on which the bill is based; and
- the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **C. Additional Client Fees Charged**

The fees charged by DLS Capital do not include fees charged by any exchange-traded fund, mutual fund, pooled investment vehicle, or any broker-dealer or custodian selected by the client. The management fees for pooled investment vehicles are disclosed in their confidential offering memoranda and applicable subscription documents or, in the case of an exchange-traded fund or mutual fund, in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using DLS Capital may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

### **D. Prepayment of Client Fees**

DLS Capital does not require the prepayment of its advisory fees. DLS Capital's fees will be disbursed to the firm by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The qualified custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any earned, unpaid fees will be immediately due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### **E. External Compensation for the Sale of Securities to Clients**

DLS Capital's advisory professionals are compensated solely through a salary and bonus structure. DLS Capital's advisory professionals are not paid any sales, service, or administrative fees for the sale of mutual funds or any other investment products.



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

Other than in its proprietary hedge fund, DLS Capital does not charge performance-based fees for its separately managed accounts and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## **Item 7. Types of Clients**

DLS Capital offers personalized investment management services to individuals including high-net-worth individuals and related trusts, charitable entities and foundations, pooled investment vehicles, corporations, and other business entities. Although DLS Capital provides investment services to the various types of clients mentioned, the services are conditioned upon meeting the following certain minimum criteria established by the firm.

DLS Capital requires a minimum account size of \$250,000. As a result, there is an implied minimum portfolio fee of \$2,500. For accounts with portfolio values less than \$250,000, clients may be able to receive comparable services at more favorable pricing elsewhere. DLS Capital, in its sole discretion, may waive the required minimum account size.

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

### **A. Methods of Analysis and Investment Strategies**

The methods of analysis may include fundamental and technical analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. In addition, DLS Capital reviews research material prepared by others, corporate filings, corporate rating services, and a variety of financial publications.

DLS Capital may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to its clients.

DLS Capital generally recommends individual securities in both the growth and value styles as well as fixed income securities, and provides advice on virtually every other type of security, as more fully described below.

#### **A.1 Equity Portfolios**

Typically, DLS Capital will invest in “fallen angels”—underperforming companies in solid industries, companies experiencing price dislocation relative to their operating earnings, and companies experiencing financial stress or distress. Accordingly, DLS Capital may invest in companies involved in acquisitions, capitalizations, consolidations, and bankruptcies. Although the primary emphasis of the firm will be on public equity investments, DLS Capital may invest client assets in bank debt, bonds, convertible securities, preferred equities, and alternative assets such as structured finance vehicles and trade claims.

#### **A.2. Material Risks of Investment Instruments**

DLS Capital typically invests in equity securities, corporate and bank-sponsored debt instruments, municipal fixed income instruments, government securities including asset-backed securities, options on securities, and other securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities

- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations
- Option contracts on indices
- Option contracts on futures
- Futures contracts and index contracts

#### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.2.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.2.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain

exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.2.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.g. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or they require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.2.i. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.2.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, DLS Capital will be unable to monitor or verify the accuracy of such performance information.

#### **A.2.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or

formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high investment grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

#### **A.2.I. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.m. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, DLS Capital may also invest in corporate debt securities

registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.2.n. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, DLS Capital may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.2.o. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final



distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

---

In certain instances, when an independent investment manager, through a separately managed account product or privately sponsored fund, has discretionary authority, such investment manager may invest in the following types of financial instruments:

**A.2.p. Options on Indices**

An index assigns relative values to the securities included in the index, and the index fluctuates with changes in the market values of the securities included in the index. Index cash options operate in the same way as the more traditional options on securities, except that index options are settled exclusively in cash and do not involve delivery of securities. Thus, upon exercise of index options, the purchaser will realize and the writer will pay an amount based on the differences between the exercise price and the closing price of the index.

**A.2.q. Options on Futures**

Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract rather than to purchase or sell a security at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by transfer to the holder of an accumulated balance representing the amount by which the market price of the futures contract exceeds in the case of a call, or is less than in the case of a put, the exercise price of the option on the future.

**A.2.r. Futures Contracts and Index Futures Contracts**

A futures contract is a bilateral agreement where one party agrees to accept and the other party agrees to make delivery of cash for an underlying debt security, as called for in the contract, at a specified date and at an agreed-upon price. An index futures contract involves the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the securities comprising the index is made. Generally, these futures contracts are closed out prior to the expiration date of the contracts.

## **B. Investment Strategy and Method of Analysis of Material Risks**

### **B.1. Leverage**

Although DLS Capital, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, DLS Capital will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers that carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although DLS Capital, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

DLS Capital generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the

unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

#### **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

DLS Capital as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

##### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

##### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

##### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in

value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; clients may contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a

cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified “floor rate.” A collar involving stock is called an “equity collar.” In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

### **C. Concentration Risk**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

DLS Capital neither has an affiliate broker-dealer nor is in process of registering an affiliate as a broker-dealer.

### **B. Broker-Dealer or Representative Registration**

Neither DLS Capital nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

In addition to the information described in Item 12, DLS is the General Partner of the following entities:

- DLS Global Value Fund L.P. ("Partnership"), organized under the Delaware Revised Limited Partnership Act
- DLS Global Value Master Fund L.P. ("Master Fund"), a Cayman Islands exempted limited partnership

In addition, DLS is the investment manager for the DLS Global Value Fund, Ltd. ("Offshore Fund"), a Cayman Islands exempted company.

The Partnership was formed to pool investment funds of its investors ("Limited Partners") together with the General Partner for the purpose of investing and trading in a wide variety of securities and financial instruments, domestic and foreign, primarily focusing on publicly traded equity securities. Its investment objective is to provide investors with wealth creation through deep-value and special situation investments across multiple asset classes and sectors.

The Partnership and the Offshore Fund invest substantially all of their assets in the Master Fund under a "master feeder" structure.

Investment advisory clients of DLS may be solicited to invest in the Partnership. A potential conflict of interest arises in that there is an economic incentive for DLS to solicit clients to invest directly in the Partnership. DLS, in its capacity as General Partner, receives a performance fee allocation based upon the Partnership's cumulative investment performance. Performance-based fees may create an incentive for the investment manager to incur trading and strategy risks that may conflict with an investor's risk tolerance and investment objectives.

#### **ADL, LLC Relationship**

ADL, LLC ("ADL") is a client and preferred unit holder of DLS Capital Management, LLC. Pursuant to the terms of its unit purchase agreement, ADL has the right to appoint one member to DLS's three-person Board of Managers. In addition, ADL comprises greater than ninety percent (90%)

of the assets managed by DLS. Although DLS strives to place all of its clients' interests first, there is a potential conflict of interest in that decisions DLS makes concerning the firm and its operations may be influenced by the ADL relationship.

**Greenrock Research Inc.**

Greenrock is in the business of assisting financial planning firms and other investment advisers with significant client bases (individually "Adviser", collectively "Advisers" or "Adviser firms") in the selection, retention, and monitoring of firms to manage the individual portfolios of Adviser clients, as well as providing the broad operational and administrative services commensurate with such portfolio management (referred to as a "Program"). DLS Capital serves as a sub-adviser to Greenrock Research Inc. and receives a portion of Greenrock's investment advisory fee for managing client portfolios within the Program.

**D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Although DLS Capital does not receive any remuneration from advisers, investment managers, or other service providers that it recommends to clients, the firm functions as a sub-adviser for Greenrock Research Inc. and receives a portion of the advisory fees charged by Greenrock Research Inc. for its investment management services.



## Item 11. Code of Ethics

### A. Code of Ethics Description

In accordance with the Advisers Act, DLS Capital has adopted policies and procedures designed to detect and prevent insider trading. In addition, DLS Capital has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of DLS Capital's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of the firm. DLS Capital, upon written request from the client, will send to the client a copy of its code of ethics.

DLS Capital has policies and procedures in place to ensure the interests of its clients are given preference over those of the firm, its affiliates, and its employees. For example, there are (i) policies in place to prevent the misappropriation of material non-public information, and (ii) such other policies and procedures reasonably designed to comply with federal and state securities laws.

### B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

DLS Capital does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). However, the firm does recommend securities to advisory clients in which it has some proprietary or ownership interest.

#### B.1. Proprietary Hedge Funds

DLS Capital is the General Partner of the following entities:

- DLS Global Value Fund L.P. ("Partnership"), organized under the Delaware Revised Limited Partnership Act
- DLS Global Value Master Fund L.P. ("Master Fund"), a Cayman Islands exempted limited partnership

In addition, DLS Capital is the investment manager for the DLS Global Value Fund, Ltd. ("Offshore Fund"), a Cayman Islands exempted company.

The Partnership was formed to pool investment funds of its investors ("Limited Partners") together with the General Partner for the purpose of investing and trading in a wide variety of securities and financial instruments, both domestic and foreign, focusing primarily on publicly traded equity securities. Its investment objective is to provide investors with wealth creation through deep-value and special situation investments across multiple asset classes and sectors.

The Partnership and the Offshore Fund invest substantially all of their assets in the Master Fund under a "master feeder" structure.

Investment advisory clients of DLS Capital may be solicited to invest in the Partnership. A potential conflict of interest arises in that there is an economic incentive for DLS Capital to solicit clients to invest directly in the Partnership. DLS Capital, in its capacity as General Partner, receives a performance fee allocation based upon the Partnership's cumulative investment performance. Performance-based fees may create an incentive for the investment manager to incur trading and strategy risks that may conflict with an investor's risk tolerance and investment objectives.

## **B.2. ADL, LLC, Relationship**

ADL, LLC ("ADL"), is a client and preferred unit holder of DLS Capital Management, LLC. Pursuant to the terms of its unit purchase agreement, ADL has the right to appoint one member to DLS Capital's three-person Board of Managers. In addition, ADL comprises greater than ninety percent (90%) of the assets managed by DLS Capital. Although DLS Capital strives to place all of its clients' interests first, there is a potential conflict of interest in that decisions DLS Capital makes concerning the firm and its operations may be influenced by the ADL relationship.

## **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

DLS Capital, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which DLS Capital specifically prohibits. DLS Capital has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest,
- prohibit front-running, and
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow DLS Capital's procedures when purchasing or selling the same securities purchased or sold for the client.

## **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

DLS Capital, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts

that differ from those recommended or effected for other DLS Capital clients. DLS Capital will make a reasonable attempt to trade securities in client accounts prior to trading the securities in its affiliate, corporate, employee, or employee-related accounts. It is the policy of DLS Capital to place its clients' interests above those of the firm and its employees.

## Item 12. Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

DLS Capital may recommend that clients establish brokerage accounts with BNP Paribas, a qualified custodian, or the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab") or Fidelity Investments ("Fidelity"), both FINRA-registered broker-dealers, members SIPC, (collectively referred to as "custodians"), to maintain custody of clients' assets and to effect trades for their accounts. Although DLS Capital may recommend that clients establish accounts at custodians, it is the client's decision to custody assets with Schwab. DLS Capital is independently owned and operated and not affiliated with custodians.

For DLS Capital clients' accounts maintained in its custody, custodians generally do not charge separately for custody services, but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through custodians or that settle into custodians' accounts.

In certain instances and subject to approval by DLS Capital, DLS Capital will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by DLS Capital will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. How We Select Brokers/Custodians to Recommend

DLS Capital seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)

- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.b. Soft Dollar Arrangements**

DLS Capital generally receives research and services provided by broker-dealers from third-party vendors or by requesting that a broker-dealer step-out client trades or pay research credits to broker-dealers or vendors who produce research products or services. DLS Capital may also trade directly with a broker-dealer who produces research or brokerage services. Selection of these broker-dealers is not made pursuant to an agreement; however, DLS Capital utilizes an internal allocation procedure to identify those brokers or dealers who produce research or services that are provided to DLS Capital and endeavors to direct sufficient research credits generated by its clients' accounts to such brokers or dealers to ensure the continued receipt of the research and services that DLS Capital believes are valuable. To the extent DLS Capital utilizes client transactions to obtain information DLS Capital might otherwise acquire at its own expense, DLS Capital may have an incentive to place a greater volume of transactions or pay higher commissions.

The research and brokerage services provided to DLS Capital may be proprietary or produced by third parties. The research and brokerage services are used by DLS Capital in making investment decisions or trading for client accounts and constitute advice, either directly or through publications or writings, as to the value of securities, the advisability of investing, purchasing, or selling securities, and the availability of securities or purchasers and sellers of securities. They include analysis and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategies, and meetings where corporate executives are present to provide information on the performance of their companies. They may also include statistical analysis, data and data services, software and computer programs utilized for research and portfolio analysis, trade analytics, market research, and brokerage services relating to execution, clearing, and settlement of transactions. In some cases, products and services may be provided to DLS Capital that constitute both (i) research and brokerage services and (ii) services used for administrative or other functions not related to the investment decision-making or brokerage processes. In such cases, the allocation will generally be made on the basis of the percentage of time devoted to DLS Capital's use of the product for research vs. non-research applications, or such other appropriate measure of the value of the product for each use as the Compliance Officer determines to be appropriate, both initially and upon subsequent periodic review.

Research products or services provided by brokers may be used in servicing any or all of the clients of DLS Capital, and such research products or services may not necessarily be used by

DLS Capital in connection with the accounts that paid commissions to the brokers providing such products or services. For various reasons, including differing investment strategies and directed brokerage arrangements, products and services may benefit clients that do not execute transactions generating research or brokerage credits. Brokerage for a related party account and the firm's capital account is directed to a broker providing custody for the accounts; these accounts do not generate research or brokerage credits. Clients that direct brokerage may establish commission recapture programs where services are received directly by the client account in return for brokerage generated by that account.

As indicated above, individual clients may direct DLS Capital (subject to certain conditions which may from time to time be imposed by DLS Capital) to effect portfolio transactions through specific brokers or dealers. A client who chooses to direct the use of a particular broker or dealer should consider whether such a direction may result in certain costs or disadvantages to the client, either because the client may pay higher commissions on some transactions than might otherwise be obtainable by DLS Capital, or may receive less favorable executions on some transactions, or both. The ability of DLS Capital to negotiate commission rates with directed brokers will be limited. A client who directs brokerage may also be subject to the disadvantages discussed in Item 12.A.3 below regarding aggregation of orders. In determining whether to instruct DLS Capital to utilize a particular broker or dealer, the client may wish to compare the possible costs or disadvantages of such an arrangement with the value of the services provided.

Please be advised that 95% of DLS's client assets are held at BNP Paribas. Such client portfolios are used exclusively for soft dollar trading purposes even though all clients receive a benefit from the soft dollar services. Accounts maintained at other custodians do not participate in soft dollar trades. The trade away fees charged by such custodians make the trades uneconomical because of the relative high proportion of the trade away fee to the total value of the trade. In addition, the relatively small proportion of non-BNP Paribas assets to the total, as a practical matter, is not material to the allocation of soft dollar costs. As such, BNP Paribas clients should understand that they assume a disproportionate share of the soft dollar costs versus accounts held at other custodians. The firm periodically monitors its soft dollar practices and will make changes to its practices and disclosures as applicable under the circumstances.

#### **A.1.c. Institutional Trading and Custody Services**

Custodians provide DLS Capital with access to its institutional trading and custody services, which are typically not available to custodians' retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at custodians. These services are not contingent upon DLS Capital committing to custodians any specific amount of business (assets in custody or trading commissions). Custodians' brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

**A.1.d. Other Products and Services**

Custodians also make available to DLS Capital other products and services that benefit the firm but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of DLS Capital's accounts, including accounts not maintained at such custodians. Custodians also makes available to DLS Capital managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing, and other market data
- facilitate payment of DLS Capital's fees from its clients' accounts
- assist with back-office functions, recordkeeping, and client reporting

Custodians also offers other services intended to help DLS Capital manage and further develop its business enterprise. These services may include

- compliance, legal, and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

Custodians may also provide other benefits, such as educational events or occasional business entertainment of DLS Capital personnel. In evaluating whether to recommend that clients custody their assets at custodians, DLS Capital may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost, or quality of custody and brokerage services provided by custodians, which may create a potential conflict of interest.

**A.1.e. Independent Third Parties**

Custodians may make available, arrange, and/or pay third-party vendors for the types of services rendered to DLS Capital. Custodians may discount or waive fees they would otherwise charge for some of these services or all or a part of the fees of a third-party providing these services to DLS Capital.

**A.1.e. Additional Compensation Received from Custodians**

DLS Capital may participate in institutional customer programs sponsored by broker-dealers or custodians. DLS Capital may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between DLS Capital's participation in such programs and the investment advice it gives to its clients, although DLS Capital receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations

- Research-related products and tools
- Consulting services
- Access to a trading desk serving DLS Capital participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to DLS Capital by third-party vendors

The custodian may also pay for business consulting and professional services received by DLS Capital's related persons, and may pay or reimburse expenses (including travel, lodging, meals and entertainment expenses for DLS Capital's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit DLS Capital but may not benefit its client accounts. These products or services may assist DLS Capital in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help DLS Capital manage and further develop its business enterprise. The benefits received by DLS Capital or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

DLS Capital also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require DLS Capital to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, DLS Capital will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by DLS Capital's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for DLS Capital's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, DLS Capital endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by DLS Capital or its related persons in and of itself creates a potential conflict of interest and may indirectly influence DLS Capital's recommendation of broker-dealers for custody and brokerage services.

## **A.2. Brokerage for Client Referrals**

DLS Capital does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.



### **A.3. Directed Brokerage**

#### **A.3.a. DLS Capital Recommendations**

DLS Capital, if requested by a client, typically recommends BNP Paribas, Schwab, or Fidelity as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

#### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct DLS Capital to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage DLS Capital derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. DLS Capital loses the ability to aggregate trades with other DLS Capital advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

DLS Capital may recommend that clients establish brokerage accounts with BNP Paribas, Schwab, or Fidelity to maintain custody of clients' assets and to effect trades for their accounts. Such accounts will be prime broker eligible, so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the client's current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee, which is charged against the client's account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees. Clients will consult their current custodian for their policies and fees.

DLS Capital, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the amount of such securities, the executing broker, and the commission rates to be paid to effect such transactions. DLS Capital recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. DLS Capital will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to

- the financial strength, reputation, and stability of the broker
- the efficiency with which the transaction is effected
- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- the availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future

- the efficiency of error resolution, clearance, and settlement
- block trading and positioning capabilities
- the ability to borrow securities for short sale
- performance measurement
- online access to computerized data regarding customer accounts
- availability, comprehensiveness, and frequency of brokerage and research services
- commission rates
- the economic benefit to the client
- related matters involved in the receipt of brokerage services

### **B.2. Security Allocation**

Since DLS Capital may be managing accounts with similar investment objectives, the firm may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by DLS Capital in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts. Such aggregate orders may include transactions for accounts for employee benefit plans and private investment vehicles, such as limited partnerships or limited liability companies, in which DLS Capital, its affiliates, principals or employees are among the investors.

DLS Capital's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account clients' best interests. DLS Capital will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

DLS Capital's advice to certain clients and entities and the action of the firm for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines, and circumstances. Thus, any action of DLS Capital with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of the firm to or on behalf of other clients.

### **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in

the best interests of other accounts, then the trade will only be performed for that account. This is true even if DLS Capital believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the order is allocated to client accounts by a computer system that randomly selects such accounts. DLS Capital believes that, over time, this method of allocating trades is fair and reasonable to clients.

DLS Capital acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interests of clients.

---

## Item 13. Review of Accounts

### A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

The review of accounts of high-net-worth individuals and related trusts, charitable entities, pension and profit sharing plans, corporations, and other business entities is conducted in the first instance by the portfolio manager servicing the client relationship. Such professionals are subject to the general authority of DLS Capital's Managing Member and Chief Compliance Officer. The Managing Member or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Managing Member or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client. Reviews for managed accounts consist of an analysis of the following factors:

- client investment objectives
- industry issues
- credit issues
- information concerning individual holdings in portfolios
- review of performance versus benchmark and performance attribution

### B. Review of Client Accounts on Non-Periodic Basis

DLS Capital may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how DLS Capital formulates investment advice.

### C. Content of Client-Provided Reports and Frequency

Other than for clients participating in the Greenrock Research Program, DLS Capital provides quarterly reports for managed accounts that contain information regarding account performance and a comparison of the account's performance to appropriate benchmarks.

For accounts DLS Capital manages in the Greenrock Research Program, DLS Capital does not provide reports, but will make its personnel available to clients for consultation under the terms of its agreement with Greenrock Research. Reports under this Program are provided by either Greenrock Research or the Adviser servicing the client relationship.

The client's independent custodian also provides regular account statements directly to the client. The custodian's statement is the official record of the client's account and supersedes any statements or reports created on behalf of the client by DLS Capital.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

DLS Capital does not receive economic benefits for referring clients to third-party service providers.

### **B. Advisory Firm Payments for Client Referrals**

DLS Capital may enter into agreements with solicitors who will refer prospective advisory clients to DLS Capital in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with DLS Capital. The solicitor must provide the client with a disclosure document describing the fees it receives from DLS Capital, whether those fees represent an increase in fees that DLS Capital would otherwise charge the client, and whether an affiliation exists between DLS Capital and the solicitor.

## **Item 15. Custody**

Clients will receive at least quarterly account statements directly from their qualified custodian containing a description of all activity, cash balances, and portfolio holdings in the client's account. DLS Capital urges that clients compare the account balance(s) shown on their DLS Capital gain/loss reports to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16. Investment Discretion**

Clients are required to grant a limited power of attorney to DLS Capital with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, DLS Capital will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, the commissions to be paid, and the executing broker to be used. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## Item 17. Voting Client Securities

DLS Capital, as an SEC-registered investment adviser, often has voting power with respect to securities in client accounts. When DLS Capital has proxy voting power with respect to securities in a client's account, it owes certain fiduciary duties with respect to the voting of proxies. These fiduciary duties include (i) the duty of care, which requires DLS Capital to monitor corporate events and to vote the proxies; and (ii) the duty of loyalty, which requires DLS Capital to vote proxies in a manner consistent with the best interests of the client and to put the client's interests before DLS Capital's own interests.

In keeping with its fiduciary duties, DLS Capital has adopted a Proxy Voting Policy, which sets forth the firm's policies and procedures designed to ensure that it votes each client's securities in the best interest of the client. DLS Capital will be authorized to take action and render any advice with respect to the voting of proxies for securities held in the client's account. DLS Capital will make an independent valuation for each applicable company held in the client's account in accordance with its fiduciary obligations as detailed in this policy. Clients may contact DLS Capital for information about how the firm voted with respect to any of the securities held in their accounts.

Except as required by applicable law, DLS Capital will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

As a general rule, DLS Capital will vote all proxies relating to a particular proposal the same way for all client accounts holding the security in accordance with DLS Capital's Proxy Voting Policy, unless a client specifically instructs DLS Capital in writing to vote such client's securities otherwise. When making proxy voting decisions, DLS Capital may seek advice or assistance from third-party consultants, such as proxy voting services or legal counsel.

A copy of DLS's Proxy Voting Policy will be provided upon receipt of a written request. Such requests may be sent to:

Chief Compliance Officer  
DLS Capital Management, LLC  
2275 Half Day Road, Suite 135  
Bannockburn, Illinois 60015



## **Item 18. Financial Disclosures**

### **A. Balance Sheet**

DLS Capital does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

DLS Capital does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.