

**QUOTIENT INVESTORS, LLC**  
**FIRM BROCHURE**

**Item 1 – Cover Page**

Quotient Investors, LLC

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March 31, 2014

This Brochure provides information about the qualifications and business practices of Quotient Investors, LLC. If you have any questions about the contents of this Brochure, please contact us at 212-685-4648 or [byost@quotientinvestors.com](mailto:byost@quotientinvestors.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Quotient Investors 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 based on which you can determine to hire or retain an Adviser.

Additional information about Quotient Investors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This brochure was updated to provide more detailed disclosure regarding Quotient Investors' brokerage allocation practices and the factors that Quotient Investors evaluates in assessing the quality of trade execution received by clients. Additionally, we updated our brochure to disclose that we no longer offer our small cap value and small cap growth investment strategies.

This section of Quotient Investors' disclosure brochure discusses only those material changes made since the firm's last amended disclosure brochure dated March 27, 2013. Additional changes were made that are not discussed in this summary and, consequently, clients are encouraged to read this version of Quotient Investors' disclosure brochure in its entirety.

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#### **Item 4 – Advisory Business**

Quotient Investors, LLC, a registered investment advisor, was founded in 2007 and is majority owned by its three Managing Partners, Andre Bertolotti, William Yost and Julia Peter-Kerr, through Quotient Group, LLC. Strategic Investment Group Ventures II, LLC is a minority owner of Quotient Investors and is jointly owned by the California Public Employees' Pension Retirement System and Strategic Investment Management, L.P.

Quotient Investors, LLC ("Quotient Investors") offers discretionary investment advisory services primarily to institutional clients including charitable organizations, endowments, employee benefit plans, public pension funds and corporations.

Quotient Investors' services include providing investment advice primarily related to U.S. equities. Quotient Investors offers six U.S. quantitative investment strategies: Large Cap Core, Large Cap Value, Large Cap Growth, Large Cap ESG (Environmental, Social and Governance), Small Cap Core and Micro Cap. All client accounts are managed in accordance with one of the investment strategies listed above, subject to any conditions imposed by clients in their investment guidelines or objectives or in instructions otherwise provided to Quotient Investors.

As of January 31, 2014, Quotient Investors' total assets under management were \$423,255,389. All assets are managed on a discretionary basis.

#### **Item 5 – Fees and Compensation**

Quotient Investors U.S. Large Cap separate account annual fee schedule is:

\$0 - \$100 million	0.50%
Above \$100 million	Negotiable

Quotient Investors U.S. Small Cap separate account annual fee schedule is:

\$0 - \$100 million	0.80%
Above \$100 million	Negotiable

Quotient Investors U.S. Micro Cap separate account annual fee schedule is:

\$0 - \$100 million	1.00%
Above \$100 million	Negotiable

The specific manner in which fees are charged by Quotient Investors is established in a client's written agreement with Quotient Investors. Quotient Investors will generally bill its fees on a quarterly basis. Clients are normally billed in arrears each calendar quarter. Clients may also elect to be billed directly for fees or to authorize Quotient Investors to directly debit fees from client accounts. Management fees are normally prorated for significant capital contributions and withdrawals made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated

or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded by Quotient Investors, and any earned, unpaid fees will be due and payable.

Quotient Investors' fees, including those for accounts with under \$100 million in assets, are negotiable.

Quotient Investors' fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may also incur certain charges imposed by custodians, brokers, and other third parties such as custodial fees, deferred sales charges, odd-lot differential fees, transfer taxes, wire and electronic fund transfer fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees paid to third-party investment advisers, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Quotient Investors' fee, and Quotient Investors shall not receive any portion of these commissions, fees, and costs.

Please see Item 12 below for a discussion regarding brokerage, including the factors that Quotient Investors considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions) that may be relevant to this discussion of fees.

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

In some cases, Quotient Investors may enter into performance fee arrangements with qualified clients. These fees are subject to individualized negotiation with each such client. Quotient Investors will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (The Advisers Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, Quotient Investors shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for Quotient Investors to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement or to focus on short-term profits. Such fee arrangements also create an incentive to favor performance-based fee paying accounts over other accounts in the allocation of investment opportunities. Quotient Investors has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

#### **Item 7 – Types of Clients**

Quotient Investors provides portfolio management services primarily to state and/or local government entities and/or their public pension funds as well as private investment funds. Quotient's services are also marketed and offered to other types of institutional clients such as corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, registered mutual funds, trust programs, sovereign funds, foreign funds and other U.S. and international institutions. Quotient Investors may also offer services to high net worth individuals and family offices.

All clients will be required to sign an investment management agreement that explains the arrangement between Quotient Investors and the client. The agreement will normally describe investment objectives, guidelines and fees.

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

Portfolios are managed against value, growth, core, large-cap, small-cap, and micro-cap Russell benchmarks through a quantitative and systematic investment process that integrates intra-industry alpha forecasts with systematic risk control and low impact algorithmic trading. The process is designed to control risk and generate return through stock selection. 56 intra-industry alpha models identify the price drivers unique to companies within an industry. The models incorporate value, relative value, growth, earnings growth, quality growth, momentum, ESG and custom factors.

Stock selection is driven by Quotient Investors' insights into the valuation of companies operating within an industry. In total, there is a unique valuation model for each of the 56 industries in the U.S. equity market.

Unique characteristics of the investment process include:

##### **Multiple Themes used for Alpha Modeling**

The valuation models incorporate factors from multiple categories including value, relative value, earnings growth, quality growth, momentum and unique industry specific factors.

##### **Robust Risk Control**

Portfolio optimization combined with asset, industry, sector and beta constraints provides effective risk control in volatile market environments.

##### **Focus on Stock Selection**

Quotient Investors picks stocks within industries but does not bet on industries. Quotient Investors expects about 60% to 80% of the active return to come from stock selection within industries. Risk control minimizes market timing, industry, sector and style bets.

##### **ESG Integration**

For the Sustainable Alpha Strategy, the ESG factors are tested in each of 56 different industries and then integrated with Quotient Investors' Intra-Industry Models based on industry level robustness.

##### **Risk of Loss**

Quotient Investors invests primarily in publicly traded large-cap, small-cap, and micro-cap U.S. equity securities depending on the investment strategy. Although Quotient Investors attempts to mitigate risk through its security selection process, client portfolios are nonetheless exposed to general economic, market, and industry risks as well as specific issuer risk. Furthermore, with respect to small-cap and micro-cap securities, while smaller companies generally have potential for rapid growth, they often involve

higher risks because they lack the management experience, financial resources, product diversification, and competitive strengths of larger companies. These factors make smaller companies far more likely than their larger counterparts to experience significant operating and financial setbacks that threaten their short-term and long-term viability. Additionally, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies (i.e., there may be limited liquidity for the security) and as a result, the securities of smaller companies may be subject to wider price fluctuations, and exiting investments in such securities at appropriate prices may be difficult, subject to substantial delay, or impossible.

Quotient Investors' strategies, however, rely extensively on various proprietary models and execution management systems to manage risk, reduce costs, and generate returns. But, failure of any one of these models or systems could expose clients to risk of loss. Portfolios may also have annual turnover that exceeds 200% and commissions and/or transaction fees related to such turnover may have a significant impact on portfolio returns. Market impact costs can also significantly reduce return. Investing in securities involves risk of loss, including the possible loss of all amounts invested, that clients should be prepared to bear.

#### **Item 9 – Disciplinary Information**

Neither Quotient Investors nor any of its supervised persons have been the subject of any legal or disciplinary events that would be material to your evaluation of Quotient Investors or the integrity of Quotient Investors' management.

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

As noted above, 49% of Quotient Investors is owned by Strategic Investment Group Ventures II, LLC, which is owned by Strategic Investment Management, LP and the California Public Employees Retirement System. Strategic Investment Management, LP is a registered investment advisor and Strategic Investment Group Ventures II, LLC has ownership interests in other investment advisers. Other than ownership, Quotient Investors does not have any relationship or arrangement with Strategic Investment Management, LP or Strategic Investment Group Ventures II, LLC that is material to our advisory business or to our clients.

#### **Item 11 – Code of Ethics**

Quotient Investors has adopted a Code of Ethics and Compliance Policies and Procedures in accordance with the provisions of Rules 204A-1 and 206(4)-7 of the Advisers Act. The Code sets forth Quotient Investors' standards of business conduct as a fiduciary and specifically requires that Quotient Investors' employees comply with applicable federal and state securities laws and Quotient Investors' policies and procedures. Specifically, Quotient Investors' Compliance Manual contains policies and procedures addressing Political Contributions, Outside Business Activities, Gifts and Entertainment, and personal account trading of Quotient Investors' employees.

With respect to personal account trading, all employees are required to disclose employee and employee-related personal securities accounts. On occasion, employees may invest in the same securities as those recommended to clients. This may create potential conflicts of interest because Quotient Investors or its employees may have (1) an incentive to recommend or not recommend the purchase or sale

of those securities to clients in order to protect the value of their personal investment, and (2) an incentive to place their orders before those of clients in order to obtain a better price. Employees are prohibited from effecting personal trades while a client has a pending buy or sell order in the same or a related security until the client order is executed or withdrawn. All personal account trades must be pre-cleared, with the exception of certain securities, such as U.S. government securities, bankers' acceptances, bank certificates of deposit, commercial paper, high quality short-term debt instruments, as well as shares of open-ended mutual funds and unit investment trusts for which Quotient Investors is not the investment adviser or principal underwriter for. Employees are required to disclose personal securities account trades at least quarterly.

Quotient Investors clients or prospective clients may request a copy of the firm's Code of Ethics by contacting William Yost, Managing Partner and Chief Compliance Officer using the contact information on the Cover Page of this Brochure.

## **Item 12 – Brokerage Practices**

### **Brokerage Discretion**

In general, Quotient Investors does not accept direction from its clients as to where the execution of an order should take place (i.e., directed brokerage arrangements). However, in some instances Quotient Investors permits clients to direct trades if it is provided for in the investment management agreement and if it does not adversely impact other client portfolios or violate our best execution policies.

Certain clients of Quotient Investors may enter into arrangements through which they receive special rebates, trade through minority brokers or benefit by using a specific broker-dealer. As a result, these clients may instruct in certain circumstances that a portion of their portfolio transactions be placed with such specified broker-dealer. Where Quotient Investors accepts such directions, Quotient Investors will not seek to negotiate commission rates. As a result, the client may pay higher commissions than if the broker/dealer were selected by Quotient Investors and Quotient Investors negotiated the commission rate. In addition, the client may not benefit from volume discounts on commissions that Quotient Investors may be able to obtain when trading on behalf of other clients. With respect to clients subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), Quotient Investors will not accept a client direction if Quotient Investors is aware that the transaction is not in the best interests of or for the exclusive benefit of the plan participants.

In addition, transactions for a client that directs brokerage may not be combined or "batched" for execution purposes with orders for the same securities for other accounts managed by Quotient Investors. Trades for a client that has directed us to use a particular broker or dealer may be placed at the end of batched trading activity for a particular security. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the batched order. Under these circumstances, the direction by a client to use a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices than might be the case if Quotient Investors could negotiate commission rates or spreads freely, or select brokers or dealers based on best execution.

All non-directed client brokerage is executed using algorithms provided by various broker-dealers. Broker-dealers are selected based on the effectiveness of their algorithms and dark pools in sourcing liquidi-



ty and minimizing the impact of Quotient Investor's trade orders on the market prices of the securities in question at the time of order entry (i.e., "arrival price"), as different algorithms are more effective at sourcing liquidity and/or minimizing impacts on arrival prices depending on the characteristics of the list of securities to be traded. Large cap orders tend to be placed in more restrictive pools where high frequency trading and gaming is excluded. Small and microcap orders are frequently placed in larger pools with strict limits in order to find liquidity.

Quotient Investors measures both pre-trade forecasted transaction costs and post-trade actual transactions costs as an important part of its investment process. Pre-trade forecasts are utilized along with return and risk forecasts in our portfolio optimization process. Post-trade analysis is done for all trades and trade data is collected and analyzed using previous close, interval VWAP and same day close benchmarks in order to evaluate the quality of the execution received. All trades are also measured against an arrival price benchmark. Future brokerage allocation determinations with respect to algorithms and dark pools is based on their prior results against these different benchmarks. Quotient Investors may pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction in recognition of the overall quality of the execution to be received.

Subject to the terms of the investment management agreement, Quotient Investors may pay brokerage commissions higher than those obtainable from other brokers specifically in return for research that it may receive or engage in any other soft dollar or commission rebate practices (see discussion below for further detail).

#### Aggregation of Orders

Where practicable, typically when investment strategies are identical or substantially similar, client orders are aggregated if 1) Quotient Investors believes that such aggregation is consistent with its duty to seek best execution (which shall include best price) for its clients, 2) no account will be systematically favored over any other account, and 3) each account that participates does so at the average price acquired for all transactions of Quotient Investors executed as part of the aggregate order on that business day. Aggregated orders that are partially filled will be allocated on a fair and equitable basis, generally pro rata based on the original pre-trade allocation. With respect to aggregated orders for U.S. equity securities, because of the large number of shares involved, Quotient Investors may employ a competitive bidding process it refers to as "principal bidding."

#### Soft Dollar or Commission Rebate Relationships

Quotient Investors may engage in soft dollar relationships or commission rebate practices subject to the terms of the investment management agreement, subject to the approval of the client for whom the soft dollars are generated, and subject to applicable rules and regulations that guide soft dollars. Currently, Quotient Investors has one formal soft dollar arrangement through which it is able to generate soft dollars credits through any broker-dealer with whom it executes trades, with the exception of minority-owned broker-dealers. Through this soft dollar arrangement, Quotient Investors receives access to systems that provide market data, earnings estimates information and analysis, index information, portfolio analytics and risk metrics, and equity research. Additionally, soft dollars commissions are used to pay for Quotient Investors' exchange fees. Pursuant to this arrangement, clients pay higher commissions than would be the case if no soft dollar arrangement existed. Quotient Investors may also receive

proprietary research from its executing brokers-dealers which may be received in the form of published reports and analyses of issuers, industries, market trends and related technical information, computer based products, on-line data links, as well as access to analysts on the telephone and at research conferences and seminars. These services are typically provided by broker-dealers to promote business relationships within the normal course of business conduct. In obtaining research or other products and services with soft dollars, Quotient Investors receives a benefit because Quotient Investors does not have to produce or pay for the research, products or services. As a result of these arrangements, Quotient Investors may have an incentive to select or recommend a broker-dealer based on our interest in receiving research and other products or services rather than our clients' interest in receiving most favorable execution. Research information or services furnished by broker-dealers may be used in servicing any or all of the clients of Quotient Investors and Quotient Investors does not attempt to allocate soft dollar benefits proportionately to the accounts that generated the soft dollar credits.

#### Client Referrals from Brokers

Quotient Investors does not consider the receipt of client referrals from a broker-dealer when selecting or recommending broker-dealers to clients.

#### **Item 13 – Review of Accounts**

Portfolio Managers review portfolios on an ongoing basis and hold informal meetings periodically to discuss various factors including market and economic conditions, portfolio characteristics, investment objectives, portfolio transactions and performance. Factors that trigger reviews include release of economic data, interest rate movements, announcements that are industry or company specific, tender offers, price movements, liquidity, alpha and risk model robustness and the overall objectives and guidelines of the portfolios.

With respect to equity accounts, daily trigger factors include stock positions that have moved more than 10% relative to the benchmark at any point in time during the day. Regular reviews by the Portfolio Manager and Chief Compliance Officer are performed of all client portfolios through a quantitative risk management system. Annual tracking error that is 1.5 times the targeted level in the client guidelines is a trigger for more in depth review.

The Head of Portfolio Management and Trading reviews trading in all client accounts on a quarterly basis to ensure that trades are in compliance with stated investment guidelines. On a quarterly basis the Chief Investment Officer and the Head of Portfolio Management and Trading perform quarterly reviews of holdings in all accounts at a formal Investment Committee meeting.

Business backgrounds of the Chief Investment Officer and the Head of Portfolio Management and Trading are disclosed in Form ADV Part 2B and are available upon request.

Generally, monthly and quarterly reports reflecting portfolio return, risk, attribution, and market commentary are sent directly to clients by Quotient Investors. Additional reports concerning other information may also be furnished to a client as requested.

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

Quotient Investors may enter into third-party marketing agreements with persons or businesses for the purpose of raising capital for its large-cap, small-cap, and micro-cap products. Currently, however, Quotient Investors does not have any such arrangements in place.

As disclosed above, Quotient Investors receives soft dollar products and services that are derived from Quotient Investors' provision of investment advice to clients. Please see Item 12 above for a discussion of Quotient Investors' soft dollar arrangements and the conflicts of interest associated with such arrangements.

#### **Item 15 – Custody**

Quotient Investors does not maintain custody of its client's funds or securities. Clients, however, should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets. Quotient Investors urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements, however, may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

Quotient Investors primarily offers discretionary investment advisory and sub-advisory services to its clients. Quotient Investors usually receives discretionary authority from the client at the outset of an advisory relationship. For clients that grant discretion, Quotient Investors supervises and manages each such client's portfolio and makes investment decisions without consultation with the client. Discretionary authority typically granted by clients involves determining the securities to be bought and sold for the account, the total amount of the securities to be bought and sold, selecting the brokers with whom orders for the purchase or sale of securities are placed for execution and the price per share and the commission rates at which securities transactions are affected. In some instances, Quotient Investors' discretionary authority may be limited by conditions imposed by clients in their investment guidelines or objectives or in instructions otherwise provided to Quotient Investors. Investment guidelines and restrictions must be provided to Quotient Investors in writing. When selecting securities and determining amounts, Quotient Investors observes the investment policies, limitations and restrictions of the clients for which it advises.

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

Under the Advisers Act, Quotient Investors is a fiduciary that owes each client duties of care and loyalty with respect to all services undertaken on each such client's behalf, including proxy voting. The duty of care requires Quotient Investors to monitor corporate events and to vote proxies. To satisfy its duty of loyalty, Quotient Investors must vote in a manner consistent with the best interests of the clients affected and must not subrogate client interests to its own.

Because of the Quotient Investors' quantitative investment strategy with respect to equity securities, generally the issues voted on by proxy have little effect on the decision to buy, sell or hold the security. As a result, the firm's policy is to vote, or have its service provider vote, in favor of management pro-

posals. Some clients will retain the right to vote proxies. A client's decision to vote proxies will be stated in the investment management agreement.

Clients may obtain a copy of Quotient Investors' complete proxy voting policies and procedures upon request. Clients may also obtain information from Quotient Investors, information about how Quotient Investors voted any proxies on behalf of their account(s).

#### **Item 18 – Financial Information**

Quotient Investors is not currently subject to any financial condition that is reasonably likely to impair our ability to meet our contractual and/or fiduciary commitments to clients, and Quotient Investors has not been the subject of a bankruptcy proceeding. Quotient Investors was formed and funded under the California Public Employees Retirement System Manager Development Program II, which contractually provides both working capital and product funding. Quotient Investors' financial condition is impacted by its existing relationship with the California Public Employees Retirement System (CalPERS) and its adviser Strategic Investment Group (SIG).