



This ADV brochure, dated September 1, 2015, provides information about the qualifications and business practices of:

## **Institutional Capital LLC**

**353 North Clark Street, Suite 3500**

**Chicago, IL 60654**

**[WWW.INSTITUTIONALCAP.COM](http://WWW.INSTITUTIONALCAP.COM)**

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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. In addition, registration as an investment adviser does not imply a certain level of skill or training.

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

## **MATERIAL CHANGES**

The purpose of this page is to inform you of any material changes since the previous annual update of this brochure. If you are receiving this brochure for the first time, this section may not be relevant to you.

This brochure, which is dated September 1, 2015, replaces the previous version, which was dated March 31, 2015. There have been no material changes since the last annual update of this brochure, which was dated March 31, 2015.

We will send you a summary of material changes to annual updates of this Brochure within 120 days of the close of our business' fiscal year. In addition, we will send you other disclosures about interim material changes as necessary.

## TABLE OF CONTENTS

Item 4: Advisory Business	4
Item 5: Fees and Compensation	5
Item 6: Performance Based Fees and Side-by-Side Management	7
Item 7: Types of Clients	8
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	9
Item 9: Disciplinary Information	13
Item 10: Other Financial Industry Activities and Affiliations	13
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	14
Item 12: Brokerage Practices	16
Item 13: Review of Accounts	20
Item 14: Client Referrals and Other Compensation	21
Item 15: Custody	21
Item 16: Investment Discretion	22
Item 17: Voting Client Securities	22
Item 18: Financial Information	23

## **Item 4: Advisory Business**

### **FIRM HISTORY**

Institutional Capital LLC (“ICAP”) is an investment advisor registered with the U.S. Securities and Exchange Commission (the “SEC”). ICAP is a wholly-owned, stand-alone subsidiary of New York Life Investment Management Holdings LLC, which is a wholly-owned subsidiary of New York Life Insurance Company. Unless the context otherwise requires, references to “we”, “us”, “our”, “the firm” and “our company” refer to ICAP.

With roots dating back to 1970, the firm manages money for some of the world’s largest and most respected corporations and institutions. We have extensive experience working with many client types, including corporations, public funds, foundations, endowments, sub-advisory relationships, and multi-employer plans. Our firm, headquartered in Chicago, Illinois, has clients that are located throughout the United States and abroad.

### **INVESTMENT SERVICES**

The firm is a large-cap value equity manager which utilizes the same philosophy, style and approach across all strategies. Our investment decision-making process focuses on finding underpriced securities with a clear catalyst for significant price appreciation within a definable time horizon. The firm currently offers seven investment strategies: ICAP Equity, ICAP Focused Equity, ICAP Select Equity, ICAP International, ICAP Euro Select Equity, ICAP Global and ICAP Global Dividend Yield.

ICAP launched its first strategy, ICAP Equity, in 1970. We have expanded our product offerings over the years as a natural extension of our investment process. In 1997, ICAP launched the ICAP Select Equity and ICAP Euro Select Equity strategies. In 2004, ICAP launched the ICAP Focused Equity strategy. In April 2005, ICAP expanded its product offerings to include the ICAP International strategy. In December 2007, ICAP launched the ICAP Global strategy. In January 2011, ICAP launched the ICAP Global Dividend Yield strategy. *(See Item 8 for a discussion of investment strategies.)*

All ICAP strategies are available to investors via a separately managed account. Each of the ICAP Equity, ICAP Select Equity, and ICAP International strategies are also available via a separate mutual fund vehicle. ICAP also participates in programs, commonly referred to as wrap-fee and unified managed account (“UMA”) programs (collectively, “Programs”), in which a third party Program sponsor offers our ICAP Equity, ICAP Select Equity and ICAP Focused Equity strategies to its clients. In certain instances, ICAP also provides model portfolios to other financial service companies for use in managing their own accounts and/or accounts of certain of their clients.

### **WRAP-FEE PROGRAMS AND SIMILAR ARRANGEMENTS**

In the Programs, a client typically will pay a single fee to the sponsor firm, which encompasses our investment advisory fee, certain transactions costs, custody, administrative costs, and trade

and execution services, including commission costs. As a result, the sponsor and the client typically request that transactions for the client's account be executed by the sponsor of the wrap fee program. Accordingly, such Program client accounts are typically considered to be client directed brokerage accounts. *(See Item 12 for a discussion of directed brokerage.)*

In connection with our participation as an adviser in certain Programs, we have engaged our affiliate, New York Life Investment Management LLC ("NYL Investments"), to provide us with certain trading related, administrative and operational services. During each business day, we provide our portfolio model, based on the current weightings for the relevant strategy, to NYL Investments. NYL Investments reviews the model, applies the model to individual Program client accounts taking into consideration any investment restrictions applicable to each account, and forwards trade instructions to each Program sponsor.

Due to the timing of when we provide our portfolio model to NYL Investments, and the time required for NYL Investments to review the model, apply it to individual accounts, and forward trade instructions to the Program sponsors, the participants in the Programs may trade in and out of positions after the trading activity of our institutional clients. *(See Item 12 for a discussion of trading for wrap programs.)*

## **TAILORED SERVICES**

For clients that engage ICAP to manage a separately managed account, or that select ICAP to manage an account for them through a Program, your portfolio can be customized to suit your investment needs and goals. You have the option of imposing reasonable investment restrictions on certain securities, industries or sectors by providing us with written instructions when you open your advisory account or at any time thereafter.

## **ASSETS UNDER MANAGEMENT**

As of June 30, 2015, ICAP managed approximately \$20,155,080,167 in client assets on a discretionary basis and approximately \$138,390,908 in client assets on a non-discretionary basis.

## **Item 5: Fees and Compensation**

### **SEPARATE ACCOUNTS**

A separate account is an individual portfolio of securities managed to meet a client's unique needs. Our advisory fee for managing a separate account generally is based on a percentage of the assets managed, calculated monthly or quarterly in arrears, and is generally based on the average of month-end market values for the account during the period. We bill our fees to each separate account client, and do not deduct them from the client's account, although the client may elect to pay our fees out of the account.

Fees are negotiable, but are generally based upon the following fee structures:

Fee Schedule for Domestic Strategies (ICAP Equity, ICAP Select Equity and ICAP Focused Equity):

- 0.625% on the first \$25 million
- 0.475% on the next \$25 million
- 0.400% on the next \$50 million
- 0.350% on the next \$100 million
- 0.300% on all assets over \$200 million

Fee Schedule for non-U.S./Global Strategies (ICAP International, ICAP Euro Select Equity, ICAP Global, ICAP Global Select and ICAP Global Dividend Yield):

- 0.650% on the first \$25 million
- 0.500% on the next \$25 million
- 0.450% on the next \$50 million
- 0.400% on the next \$100 million
- 0.350% on all assets over \$200 million

**Limited Negotiability of Advisory Fees:** Although we have established the fee structure above, we retain the discretion to negotiate alternative fees on a client-by-client basis. Pre-existing clients are subject to our minimum account size requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account size requirements and advisory fee arrangements will differ among clients.

The nature of our relationship with you is considered in determining the fee structure for your account. This includes your assets to be placed under management, anticipated future additional assets, services provided, related accounts, portfolio style, account composition, and the reports that you require, among other factors. Your specific annual fee structure is identified in your contract. We may group certain related accounts for the purposes of meeting the minimum account size requirements and determining the annualized fee.

You should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisors for similar or lower fees.

**Termination of Advisory Relationship:** Under our current form of advisory agreement, our advisory relationship may be terminated at any time, by either party, for any reason upon receipt of thirty (30) days written notice. You may elect to pay certain fees in advance of services being provided. Upon termination of your account, any prepaid, unearned fees will be promptly refunded, while any unpaid fee will be requested for immediate payment. In calculating your

remaining fee or reimbursement, we will pro-rate the fee or reimbursement according to the number of days remaining in the billing period.

## **WRAP-FEE AND SIMILAR ARRANGEMENTS**

We participate in Programs which are sponsored by unaffiliated investment advisory and/or brokerage firms (each, a “Sponsor”). As an investment manager in a Program, we receive from the Sponsor a portion of the fees collected by the Sponsor from participants in the Program. As a client participating in these Programs, you should be aware that you may be charged various Program fees and expenses in addition to the advisory fees that are paid to our firm. As a client participating in a Program, you should carefully review Appendix 1 to Part 2A of the applicable Sponsor’s Form ADV for complete details regarding the Program.

## **MUTUAL FUNDS**

We receive investment advisory fees as a sub-adviser for certain of the MainStay Family of Funds, which are investment companies registered under the Investment Company Act of 1940 that are managed by our affiliate, NYL Investments. The investment advisory fees charged with respect to the MainStay Family of Funds are described in the registration statements and/or financial filings of those funds, which are available on-line at:

<https://www.nylinvestments.com/mainstay/literature>.

We also provide investment advisory services with respect to other investment vehicles managed by our affiliates or by third parties. Information regarding investment advisory fees with respect to those vehicles is disclosed in the offering documents for those vehicles.

## **OTHER FEES OR EXPENSES**

You may pay other expenses in addition to the fee paid to our firm. For example, you may pay costs such as brokerage commissions and equivalents, markups and markdowns, transaction fees, custodial fees, transfer taxes, wire transfer fees, and other fees and taxes charged to brokerage accounts and securities transactions, which are unrelated to the fee collected by us. *(See Item 12 for a discussion of brokerage practices.)*

Mutual funds generally charge management fees for their services, which are disclosed in the fund’s prospectus and/or financial filings. In addition, mutual funds also may charge an early redemption fee if you sell your shares during the fund’s required holding period. You should refer to the fund’s prospectus for specific information regarding early redemption fees.

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

Most of our clients pay us investment advisory or management fees based on a percentage of the amount of assets in their accounts, which is commonly referred to as “asset-based fees.” Under certain limited circumstances and with the client’s approval, we receive fees calculated based on a share of capital gains on or capital appreciation of the assets in the client’s account, which are commonly referred to as “performance-based fees.” Any performance-based fees will be negotiated individually with the client. Managing accounts that have a performance-based fee at

the same time that we manage similar accounts that only have an asset-based fee is commonly referred to as “side-by-side management.”

You should be aware that performance-based fee arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. We also have an incentive to favor accounts that pay such a fee because compensation we receive from these clients is more directly tied to the performance of their accounts.

Neither ICAP nor its affiliates are required to devote their full time or attention to the managing of your assets. They may conduct other businesses and provide investment advisory and management services to other clients that may be competitive with the services provided to you. In advising other accounts, they may give advice and make recommendations to such accounts that may be the same as, similar to or different from those rendered to you. The compensation arrangements with other clients may create incentives for us to favor such other clients.

To manage these conflicts, we have implemented the following policies and procedures:

- All accounts within a strategy are managed to the strategy’s model portfolio.
- We perform periodic reviews of the applicable investment strategy’s composite versus your account.
- We have implemented policies whereby portfolio manager incentive compensation is based solely upon the performance of the respective strategies they manage. This policy is intended to incentivize each portfolio manager to act in the best interests of all clients regardless of their fee type.
- We have developed trade allocation policies and procedures designed to ensure that all clients are treated fairly and equally over time to prevent these conflicts from influencing the allocation of investment opportunities among clients.

### **Item 7: Types of Clients**

Our firm provides investment management services primarily to institutional clients, charitable institutions, corporate and governmental pension and profit sharing plans, Taft-Hartley plans, foundations, endowments, corporations, and registered and unregistered investment companies, as well as wrap fee and similar programs.

Generally, the minimum account size for a separate account is \$5 million. The minimums may be waived or reduced by us in our sole discretion. *(Item 5 provides a discussion of advisory fees for separate accounts, and for wrap-fee and similar arrangements.)*

ICAP is not registered in any province of Canada, but may accept clients in certain provinces. We are limited to advising clients in Canada who are “permitted clients” as defined under



National Instrument 31-103. Because ICAP is resident outside of Canada and all or substantially all of its assets are situated outside of Canada, clients in Canada may have difficulty enforcing legal rights against ICAP. We have appointed the following agents for service of process in the Canadian provinces listed below:

British Columbia  
Blakes Vancouver Services Inc.  
595 Burrard Street, P.O. Box 49314  
Suite 2600, Three Bentall Centre  
Vancouver, BC V7X1L3

Alberta  
Ross Bentley, Partner  
Blake, Cassels & Graydon LLP  
855 – 2nd Street S.W.  
Suite 3500, Bankers Hall East Tower  
Calgary, AB T2P4J8

Quebec  
Services Blakes Québec Inc.  
600 de Maisonneuve Boulevard Ouest  
Suite 2200, Tour KPMG  
Montréal, QC H3A 3J2

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

### **METHODS OF ANALYSIS**

#### ***Investment Process***

We focus on exploiting pricing inefficiencies by combining our valuation discipline with dynamic catalyst identification through independent, fundamental, in-depth research. Global fundamental research is the foundation of our process. Central to our investment process, we identify stocks that we believe offer the best values and seek to avoid companies that are exhibiting excessive deterioration in earnings trends.

Through the use of global fundamental research, our analysts develop a target price for each stock in our universe. All of the stocks are then ranked by upside potential given the analyst's target price. We concentrate on stocks that we believe have at least 15% upside potential.

In addition, we monitor consensus earnings estimate changes for each company in our universe. We standardize these changes for comparability, rank the universe from improving estimate changes to deteriorating estimate changes and seek to avoid the stocks with the most negative earnings revisions. By avoiding these stocks with the worst current earnings revisions, we believe we can decrease the odds of investing in value traps.

### ***Identification of Catalysts***

Catalyst identification is an important part of our process. Our investment strategy focuses on finding underpriced large capitalization securities with what we believe is a clear catalyst for significant price appreciation within a definable time horizon. We perform fundamental analysis to identify value and a compelling catalyst. We expect the catalyst to cause the market to recognize the inherent value and drive the stock to the target price within 12 to 18 months. ICAP looks for stock-specific catalysts (company level events). We put these catalysts into five categories: Management, Restructuring, Problem Fixing, New Product, and Pricing Flexibility and only purchase a new stock after we have identified a clear catalyst. Stocks that are considered for purchase have a combination of characteristics: attractive fundamental valuation, the absence of excessive earnings deterioration along with strong and well defined investment catalysts.

### ***Portfolio Construction***

Once an analyst has identified a viable candidate, a comprehensive recommendation is presented to the Global Research Team. The presentations must include a thorough review of the valuation analysis and catalyst identification along with the supporting fundamental research. Analysts must also discuss the potential risk factors. The Global Research Team discusses and debates each recommendation.

After a thorough review of the stock recommendation, the Investment Committee (a subset of the Global Research Team) votes on the idea(s) being considered. Utilizing input from the Investment Committee, the portfolio management team has ultimate responsibility over stock selection and portfolio weightings. Using this disciplined process, we construct the portfolio with what we believe are the most compelling stocks. Through diligent research, an intensive selection process and sound judgment, the team strives to build portfolios that provide consistent long-term appreciation potential.

### ***Risk Management and Sell Discipline***

We believe it is important to control risk on a bottom-up, stock-by-stock basis. When stocks are evaluated for potential purchase, both valuation and catalysts are thoroughly vetted by the team. We believe our global macroeconomic analysis, along with our company-specific research, provides a more robust framework allowing us to better understand each company's individual risk profile. Through our focused approach to investing, we seek to gain a thorough understanding as to why each stock is in the portfolio and closely monitor the dynamics of each individual security.

*We systematically evaluate each of the securities purchased on an ongoing basis. Key factors in determining if a stock will undergo a full team review are:*

- The stock is underperforming;
- Earnings estimates have deteriorated;

- The catalyst has changed or disappeared; or
- Exogenous risks bring the investment thesis into question.

*Stocks are sold for specific reasons. We will act when:*

- The stock has achieved its target price;
- The catalyst has been violated;
- A risk to the investment thesis has been identified; or
- Other candidates are more attractive.

**Investment Strategies:** To meet the investment requirements of our diverse range of clients, we offer a range of investment strategies. While the investment objectives of these strategies may vary, their overall approach is the same: seeking to exploit market inefficiencies by combining our valuation discipline with dynamic catalyst identification through independent, fundamental, in-depth research. We offer domestic equity, non-U.S./global equity and global dividend yield strategies.

## **DOMESTIC EQUITY STRATEGIES**

**ICAP Equity** – A U.S. dollar-denominated strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 40 to 50 stocks, with positions generally not exceeding 5% of the total portfolio.

**ICAP Focused Equity** - A U.S. dollar-denominated strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 30 to 35 stocks, with positions that can be greater than 5% but will generally not exceed 8% of the total portfolio.

**ICAP Select Equity** - A U.S. dollar-denominated strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 25 to 30 stocks, with positions that can be greater than 5% but will generally not exceed 8% of the total portfolio.

## **NON-U.S. AND GLOBAL EQUITY STRATEGIES**

**ICAP International** - A non-U.S. equity strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 30 to 50 stocks, with positions that can be greater than 5% but will generally not exceed 8% of the total portfolio. The strategy will hold a significant investment in each of at least three countries outside of the United States.

**ICAP Euro Select Equity** - A non-U.S. equity strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 20 to 30 stocks, with positions that can be greater than 5% but will generally not exceed 8% of the total portfolio. The strategy will hold a significant investment in European countries.

**ICAP Global** - A global equity strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 40 to 60 stocks, with positions generally not exceeding 5% of the total portfolio. The strategy will typically invest at least 40% of its assets in securities of companies organized or located outside the United States, allocating its assets among at least three different countries, including the United States.

**ICAP Global Select** - A global equity strategy that seeks capital appreciation by investing in a range of large-cap value-oriented companies with market capitalizations of at least \$3 billion at time of purchase. The portfolio typically holds 25 to 35 stocks, with positions generally not exceeding 8% of the total portfolio. The strategy will typically invest at least 40% of its assets in securities of companies organized or located outside the United States, allocating its assets among at least three different countries, including the United States.

**ICAP Global Dividend Yield** – The investment objective is to invest in a portfolio of global equity securities with an above-average dividend yield and that meet our criteria of valuation and catalysts. The portfolio typically holds 20 to 50 stocks, with positions that can be greater than 5% but will generally not exceed 8% of the total portfolio.

## **RISK FACTORS**

The investment strategies, practices and risk analysis used by ICAP may not produce the desired results, and investors could lose money. Furthermore, the value of an account's investments may change because of broad changes in the markets in which the account invests, which could cause the account to underperform other accounts with similar objectives. From time-to-time, markets may experience periods of acute stress that may result in increased volatility and increase the risk of loss. Investments in common stocks and other equity securities are particularly subject to the risk of changing economic, stock market, industry and company conditions, and the risks inherent in ICAP's ability to anticipate such changes can adversely affect the value of an account's holdings.

Value stocks may never reach what ICAP believes is their full value or they may go down in value. In addition, different types of stocks tend to shift in and out of favor depending on market and economic conditions, and therefore an account's performance may be lower or higher than that of other types of securities. Because some of ICAP's strategies invest in relatively few holdings, a larger percentage of assets in accounts managed in those strategies may be invested in a particular issuer or in fewer companies than is typical of other accounts. This may increase volatility, and an account may be more susceptible to adverse economic, political, regulatory or market developments affecting a single issuer.

With regard to ICAP's non-U.S. and global strategies, investments in non-U.S. securities are subject to risks in addition to those applicable to securities of U.S. issuers. These additional risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in

U.S. or non-U.S. tax or currency laws; and changes in monetary policy. Non-U.S. securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries.

#### **Item 9: Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Our firm and our management personnel have no reportable disciplinary events to disclose.

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

As noted in Item 4, ICAP is a wholly-owned subsidiary of New York Life Investment Management Holdings LLC and an indirect wholly-owned subsidiary of New York Life Insurance Company.

ICAP is an affiliate of New York Life Investment Management LLC ("NYL Investments"), an investment adviser registered with the SEC (File No. 801-57396), and NYLIFE Distributors LLC ("NYLIFE Distributors"), a broker-dealer registered with the SEC (File No. 8-46655). Our firm serves as a sub-adviser for several funds in the MainStay Funds family of registered investment companies, for which NYL Investments is the adviser and NYLIFE Distributors acts as principal underwriter and distributor. NYL Investments also provides certain trading related, operational, and administrative services in connection with our participation as a manager in certain managed account or wrap fee programs.

ICAP is an affiliate of NYL Investors LLC ("NYL Investors"), an investment adviser registered with the SEC (File No. 801-78759). NYL Investors advises the general and separate accounts of New York Life Insurance Company and certain affiliated insurance companies, and may advise other affiliated entities and third party clients. Our firm serves as a sub-adviser for certain of the affiliated accounts advised by NYL Investors.

In addition to NYL Investments and NYL Investors, ICAP is also an affiliate of several other investment advisers that are registered with the SEC, each of which is a subsidiary of New York Life Insurance Company, including Cornerstone Capital Management Holdings LLC (File No. 801-69663), Cornerstone Capital Management LLC (File No. 801-45262), Eagle Strategies LLC (File No. 801-32987), GoldPoint Partners LLC (File No. 801-61010), IndexIQ Advisors LLC (File No. 801-68220), MacKay Shields LLC (File No. 801-5594), MCF Capital Management LLC (File No. 801-73076), and Private Advisors, L.L.C. (File No. 801-55696).

We have related persons that are not listed in this section because we do not have any relationship or arrangement with them that is material to our advisory business or to our clients. We have a supplementary list of related persons that are not listed in this section which will be provided upon written request.

Our firm has entered into a solicitation agreement with McMorgan & Company LLC ("McMorgan") under which we pay McMorgan a portion of the investment management

compensation received by us for the solicitation of certain Taft-Hartley investment advisory clients and for the provision of various related solicitation support services to such clients. The compensation we pay to McMorgan does not increase the fees or costs payable by the client. McMorgan does not exercise investment discretion or otherwise provide investment advice with respect to the retention of our firm by the client.

Our firm has also entered into a solicitation agreement among itself and certain of its affiliated investment advisers, including Cornerstone Capital Management Holdings LLC, Cornerstone Capital Management LLC, GoldPoint Partners LLC, MacKay Shields LLC and Private Advisors, L.L.C., under which we pay our affiliated investment advisers a portion of the investment management compensation received by us for the solicitation of certain investment advisory clients and for the provision of various related solicitation support services to such clients. The compensation we pay to our affiliated investment advisers does not increase the fees or costs payable by the client. Our affiliated investment advisers do not exercise investment discretion or otherwise provide investment advice with respect to the retention of our firm by the client. From time to time, we may enter into other solicitation arrangements with our affiliates or certain unaffiliated parties, subject to compliance with applicable law. *(See Item 14: Client Referrals and Other Compensation.)*

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

### **CODE OF ETHICS & PERSONAL TRADING**

Our firm has a fiduciary relationship with our clients, which requires that we and our employees place the interests of our clients first and foremost. As such, our Code of Ethics (“Code”) covers all employees and sets forth guidelines that promote ethical conduct generally. The Code also provides employees with specific guidance about conflicts of interests, board memberships, insider trading, personal trading, and gifts and entertainment. A copy of our Code can be obtained by our current and prospective clients by sending a written request to:

Institutional Capital LLC  
353 North Clark Street, Suite 3500  
Chicago, IL 60654  
Attention: Brian Franc, Chief Compliance Officer

While we permit our employees to engage in personal securities transactions, as a firm, we recognize that these transactions may raise potential conflicts of interests. This is particularly true when they involve securities owned by, or considered for purchase or sale for, a client account.

We address potential conflicts of interests in our Code by requiring that, with regard to investments and investment opportunities, our employees’ first obligation is to our clients. Our Code requires that all of our employees adhere to the highest duty of trust and fair dealing. In addition, all employees must conduct their personal securities transactions in a manner that does

not interfere with any client's portfolio transactions, or take inappropriate advantage of an employee's relationship with a client.

## **PARTICIPATING IN CLIENT TRANSACTIONS**

Our firm has several investment advisor affiliates that are under the common control of our ultimate parent company, New York Life Insurance Company ("New York Life"). Each of the New York Life affiliated advisers may recommend that clients buy or sell securities in which such adviser, or its related persons, have a financial interest, and may buy and sell the same security between or among clients' accounts. In the ordinary course of performing their investment supervisory services, New York Life affiliated advisers may recommend that clients purchase or sell securities or interests in which New York Life affiliates also have a position or interest. The investors in such issuers could have different rights (e.g., in the event of a default, restructuring or bankruptcy proceeding involving the issuer).

The securities or interests in private investment vehicles held by such investors may include long-term and short-term debt and equity and privately placed securities. New York Life affiliated advisers may effect the purchase or sale of mutual funds that are affiliated with New York Life in client accounts.

In order to address potential conflicts of interest at a firm-wide level, ICAP and each of its affiliates operate independently with respect to investment strategy, trading and operations. Furthermore, affiliates are generally not privy to another affiliates' information (i.e., investment decisions, research, client information) that may potentially pose conflicts of interest. In the event such information would be shared, the appropriate controls would be placed around the information in order to limit any potential conflicts of interest.

Personnel associated with our firm or its affiliates may come into possession of material nonpublic information concerning various companies. Our firm and its advisory affiliates have established information barrier policies that serve to limit the dissemination of such information and provide us with flexibility in managing our clients' portfolios. Nevertheless, if we or our affiliates possess such information, our ability to buy or sell securities of such issuers for our clients may be restricted, although any such restrictions are expected to be infrequent. Such restrictions also may be imposed in isolated instances to prevent even an appearance that such information has been used in a manner contrary to law.

Our firm is not obligated and may not be permitted to divulge any such information to or for the benefit of its clients, to disclose that it is restricted from trading in a particular security, or otherwise to act on the basis of any such information in providing services to clients. We may also from time to time be subject to limitations on trading in the securities of certain issuers as a result of our holdings or those of our affiliates.

## **CHARITABLE CONTRIBUTIONS**

Our firm or its employees may provide reasonable charitable contributions on behalf of ICAP to charitable organizations that are or are associated with clients, prospects or service providers. In order to mitigate potential conflicts of interests associated with charitable contributions, ICAP has adopted a Charitable Contributions Policy under which the amount of a charitable contribution should never be based upon the level of actual or anticipated business provided by a client or prospect soliciting the charitable contribution or any benefit received from a service provider. The charitable contribution must be made in the name of ICAP and be payable directly to the charitable organization.

### **Item 12: Brokerage Practices**

Our firm monitors trading practices through a Trading Practices Committee, composed of the firm's Director of Trading, Director of Research, Chief Investment Officer, Deputy Chief Investment Officer, Senior Executive Vice President, Risk Manager, and Chief Compliance Officer. The Trading Practices Committee meets quarterly to review the approved brokers list, total commissions, soft dollars and soft dollar services, and various measures of execution quality.

## **BROKERAGE SELECTION & BEST EXECUTION**

Unless otherwise directed by a client to use a particular broker or dealer, in selecting a broker-dealer to execute a particular transaction, we seek to use our best judgment to choose the broker-dealer most capable of providing the combination of best net price and most favorable execution for the client, which is generally considered to mean a policy of executing portfolio transactions at prices and, if applicable, commissions which provide the most favorable total cost or proceeds reasonably obtainable under the circumstances. Other factors include: commission rate, the ability to execute the order at the best price, and the ability to provide investment research and stability.

It should be noted that we conduct trade activity (buy/sell) on behalf of our clients on an agency only basis, primarily in highly liquid equity securities. We do not engage in certain transactions that can lead to heightened counterparty or credit risk, such as repurchase agreements, swap transactions, short sales, or securities lending. Transactions are executed by the approved broker (as described below) and settled directly with the client's custodian.

Our firm maintains an approved broker list. The Trading Practices Committee reviews the approved broker list quarterly to determine if there are any issues with existing approved brokers and to confirm the list is appropriate given the nature of our brokerage needs. In the event that a new broker is requested to be added to the approved broker list, we will conduct a review of each proposed broker (based on public data), evaluating the broker's business, reputation and stability.



Such factors considered in the broker review include, but are not limited to: years of operation, services offered, recent news events, and potential conflicts of interest.

## **RESEARCH AND OTHER SOFT DOLLAR BENEFITS**

Subject to the criteria of Section 28(e) of the Securities Exchange Act of 1934, we may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and research services provided by the broker. In other words, we may use client commissions as “soft dollars” to obtain investment research from brokers who otherwise meet our selection criteria solely for the purpose of providing appropriate assistance to our decision-making responsibilities for our clients’ portfolios. Such brokerage and research services may be available to us on a cash basis and at a lower cost.

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services. Therefore, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on a client’s interest in receiving most favorable execution.

Before effecting any soft dollar transactions, we determine in good faith that the amount of such commission is reasonable in relation to the value of the brokerage and research services provided by such broker viewed in terms of either that particular transaction or our overall responsibilities to all of our clients. The research we obtain with soft dollars is not necessarily used for the specific account that generated the soft dollars. We do not usually attempt to allocate the relative costs or benefits of research among client accounts because we believe that, in the aggregate, the research we receive benefits clients and assists us in fulfilling our overall duty to you. You may benefit from the research and other services obtained by us even if your account contains mandates that do not permit investments in such securities or prohibits soft dollar transactions.

The research services relate to general economic, interest rate and stock market conditions, as well as information on specific companies and industries. The following types of products, research, and services are paid for with client commissions: quantitative, fundamental, and technical research strategy and charting services; economic, international and market investment strategy services; and on-line fundamental databases. In 2014, we paid approximately \$2.4 million of commissions for research services provided by third parties, representing approximately 11.7% of total commissions. We currently receive \$1 of soft dollar credit for every \$1.25 in commissions paid. Soft dollar credit ratios may be subject to negotiation between our firm and the broker/dealer.

Proprietary research services that we receive as a result of clients’ brokerage commissions include, but are not limited to, research reports and telephonic communications, daily market information about specific securities, electronic information and financial data, access to conferences with management of public companies, analyst earnings revisions, political

commentary, accounting analyses, and interfaces with economists and analysts. The research services provided by full-service brokers are not segregated from their execution services and, therefore, are not included in the \$2.4 million of commissions for research services provided by third parties. If these commissions were included in the foregoing number, the amount paid for research services should be higher.

Although we are under no formal agreement with any broker, we monitor the brokers that provide us with research materials. We allocate commissions among brokers in an effort to maintain the flow of such information that we deem of value to our investment process.

Our ability to obtain such products, research, and services is an integral factor in the establishment of our fees. We believe that it is important to our investment decision-making process for our clients' portfolios to have access to this independent research. We do not use soft dollars for non-research or mixed-use items. Our firm evaluates the reasonableness and allocation of brokerage commissions on an ongoing basis but no less frequently than annually. In addition, brokers may suggest a level of business they would like to receive in order to continue to provide such services. The actual brokerage business received by a broker may be more or less than the suggested allocations, depending on our evaluation of all applicable considerations. In no case will we make binding commitments as to the level of brokerage commission we will allocate to a broker, nor will we commit to pay cash if any informal targets are not met.

## **CLIENT DIRECTED BROKERAGE**

Although it is our preference that clients do not require us to direct trades to a particular broker-dealer (client directed brokerage), we do have clients that direct us to do so. Our firm has no involvement in the negotiations between the client and their directed broker as to the services received or payments made.

The designation of a broker or dealer by a client may cause the client to pay a higher transaction fee than otherwise may be available. Under these circumstances, we may not have the ability to negotiate commissions or obtain volume discounts. Moreover, the client should consider the implications of any fiduciary laws applicable to them prior to designating a broker or dealer for execution of their trades.

In certain instances, to satisfy a client's directed brokerage instructions, we may engage in "step-out" brokerage transactions, whereby we direct a trade to a broker-dealer who executes the transaction, while a second broker-dealer clears and settles the transaction. The first broker-dealer then shares all or part of its commission with the second broker-dealer, who actively participates in the transaction.

## **AGGREGATING AND ALLOCATING TRADES**

It is our practice, when feasible, to aggregate, for execution as a single transaction, orders for the purchase or sale of a particular security for the accounts of a number of our clients in order to

seek a more advantageous net price. The benefit, if any, obtained as a result of such aggregation is generally allocated pro-rata among the accounts of the clients which participated in the aggregated transaction. When an aggregated order is filled, each participating client account will receive the average share price for the aggregated order, and transaction costs will be shared pro-rata based on each client's participation in the aggregated order.

There may, however, be occasions when clients may pay disparate transaction costs due to minimum charges per account or trade imposed by either the broker effecting the transaction or the client's custodian. When an aggregated order is only partially filled, the securities purchased will be allocated on a pro-rata basis to each account participating in the aggregated order based upon the initial amount requested for the account, subject to certain exceptions (e.g., accounts that would receive an odd lot of less than 100 shares may not be included in the allocation), and each participating account will participate at the average share price for the aggregated order on the same business day.

However, in the case of a client who has directed us to a particular broker-dealer with respect to some or all transactions for that client's account, such client's account may not be able to participate in aggregated orders. In addition, clients who prohibit us from using a particular broker-dealer will be excluded from aggregated orders executed through that broker-dealer. In those circumstances, transactions for these clients will generally be executed after the execution of the aggregated order for other client accounts that participate in it.

Where such client's account does participate in an aggregated order executed with the client's designated broker, the client's specification of a particular broker may preclude that client from receiving the benefit, if any, of a better net price resulting from the aggregation. The accounts of other clients participating in the aggregated order may receive a correspondingly greater benefit.

## **TRADING FOR WRAP PROGRAMS**

ICAP's policies and procedures regarding trade execution, rotation, allocation and aggregation may not apply to ICAP's participation in the Programs. As noted with regards to wrap programs in Item 4, the wrap fee charged by the sponsor firm typically covers trade and execution services. As a result, the sponsor and the client typically request that transactions for clients' accounts be executed by the sponsor of the wrap fee program (or its affiliate) or a broker-dealer designated by the sponsor firm. In the event that the sponsor or its designated broker-dealer cannot provide "best execution" for a given transaction, ICAP may have the option to trade away, and the client may incur a commission cost. ICAP may execute trades for other clients with similar strategies prior to placing trades with wrap sponsors.

## **TRADE ERRORS**

In the event of a trade error, we make a reasonable attempt to identify, research and correct the error as soon as practicable. We will make your account whole for any losses resulting from a trade error that we have caused, while any gains realized as a result will remain in your account. On a case-by-case basis, where appropriate, we may net gains and losses within your account.

### **Item 13: Review of Accounts**

We manage client accounts in accordance with the stated investment objectives and the investment guidelines agreed upon with each client, and any restrictions, including social restrictions, imposed by the client. On a regular basis (generally two times per week), the investment team meets to discuss the current portfolios, potential investment opportunities and overall economic outlook.

To assist in monitoring compliance with account objectives, guidelines and restrictions, we utilize the Rules Manager compliance guideline monitoring system (an Advent product). Rules Manager provides automated compliance guideline checking on both a pre-trade and post-trade basis and allows active monitoring of account holdings to determine if an account is nearing or has encountered a guideline breach. Rules Manager is also used to generate daily holdings reports and exception reports to assist the Compliance, Trading, and Client Service departments in monitoring compliance with guidelines and restrictions. We also use a proprietary Client Database to assist in monitoring client guidelines and restrictions, as well as the MSCI ESG Screener to assist in screening for social restrictions.

### **RECONCILIATION**

Our firm does not custody any of its clients' assets, which are held by an independent third-party custodian appointed by the client. Our personnel do not have the authority to move money or securities into or out of clients' accounts; our authority over client accounts is limited to the investment of assets within the client guidelines. Our trading system (Moxy) and accounting system (Axys) are critical components of our internal control structure. These systems provide automation, separation of duties, management reporting, and redundancies critical to effective controls.

The Portfolio Operations Manager assigns a portfolio accountant (independent of the trading and investment functions) to each account. No less than monthly, the accountant reconciles our records for cash and holdings to the custodian bank's records. We have automated a significant amount of the reconciliation process to avoid mistakes and reinforce controls. The portfolio accountant researches and resolves discrepancies. The portfolio accountant also produces the paper or electronic statement that we send to the client each month.

In addition to these important controls, as discussed previously, we download trades electronically from the trading system to the portfolio accounting system, electronically match trades to broker confirms, and limit access to systems to only those with necessity for input capability.

Our processes are generally highly automated and, therefore, few errors occur. However, we produce several daily reports to help monitor client accounts, including reports on the dispersion of performance of accounts with a similar strategy. A portfolio accountant reviews these reports on a daily basis in order to identify deviations that would indicate a potential error or a pricing problem.

## **STATEMENT GENERATION**

Our firm produces a monthly client statement that includes: portfolio composition, asset changes in the portfolio, time-weighted returns, sector breakdown, detailed portfolio holdings, and a purchases and sales report. A written review of current economic and investment outlook is also provided on a quarterly basis.

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

Our firm has entered into a solicitation agreement with McMorgan & Company LLC (“McMorgan”) under which we pay McMorgan a portion of the investment management compensation received by us for the solicitation of certain Taft-Hartley investment advisory clients and for the provision of various related solicitation support services to such clients. The compensation paid to McMorgan by us does not increase the fees or costs payable by the client. McMorgan does not exercise investment discretion or otherwise provide investment advice with respect to the retention of our firm by the client.

Our firm has also entered into a solicitation agreement among itself and certain of its affiliated investment advisers, including Cornerstone Capital Management Holdings LLC, Cornerstone Capital Management LLC, GoldPoint Partners LLC, MacKay Shields LLC and Private Advisors, L.L.C., under which we pay our affiliated investment advisers a portion of the investment management compensation received by us for the solicitation of certain investment advisory clients and for the provision of various related solicitation support services to such clients. The compensation we pay to our affiliated investment advisers does not increase the fees or costs payable by the client. Our affiliated investment advisers do not exercise investment discretion or otherwise provide investment advice with respect to the retention of our firm by the client. From time to time, we may enter into other solicitation arrangements with our affiliated or certain unaffiliated parties. If we pay a cash fee to anyone for soliciting clients on our behalf or receive a cash fee for recommending clients to another investment adviser, we comply with the requirements of the SEC’s cash solicitation rule to the extent that they apply. This rule requires a written agreement between the investment adviser and the person soliciting clients on its behalf. The rule may also require that the soliciting person provide a disclosure document to the potential client at the time that the solicitation is made. As required by the rule, we will not engage another person to solicit clients on our behalf if that person has been subject to securities regulatory or criminal action within the preceding ten years.

### **Item 15: Custody**

Our firm does not custody any of our clients’ assets. In addition to the periodic account statements that clients receive directly from their custodians, we also send account statements directly to our clients on a monthly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

## **Item 16: Investment Discretion**

As noted in Item 4, unless otherwise agreed to by a client, we generally have discretionary authority to determine the type and amount of securities bought or sold for a client. Our authority is generally limited by contractually agreed upon investment guidelines, which may include specific restrictions regarding the size and type of individual investments relative to total assets, other restrictions regarding the type of securities invested in or the nature of the issuer of such securities, tax considerations, and quality standards, among other restrictions.

Our firm's policy is to provide investment advice only pursuant to a written advisory contract. In that regard, we have prepared standardized advisory agreements and also accept client contracts presented to us for advisory services. Such client contracts and the corresponding investment guidelines are subject to a review process by our Compliance Department.

## **Item 17: Voting Client Securities**

We vote proxies for all client accounts, unless otherwise directed by a client. If you wish to have your proxies voted by yourself or another party, you may instruct us, in writing, to not vote proxies in your account.

We receive analysis and recommendations from a third party, Institutional Shareholder Services ("ISS"), a subsidiary of MSCI Inc., and also use ISS's voting service. Pursuant to our Proxy Voting Policies and Procedures, the firm's Proxy Committee, which includes the analyst who follows the company, generally will decide how to vote proxies on various issues on a case-by-case basis, with the intention being to vote proxies in the best interest of client accounts.

There may be instances where our interests conflict, or appear to conflict, with client interests. For example, we may manage a portion of a pension plan of a company whose management is soliciting proxies. There may be a concern that we would vote in favor of management because of our relationship with the company. Or, for example, we (or our senior executive officers) may have business or personal relationships with corporate directors or candidates for directorship.

Our duty is to vote proxies in the best interests of our clients. Therefore, in situations where there is a conflict of interest, we will seek to resolve the conflict using one of the following:

1. Vote the securities based on a pre-determined voting policy if the application of the policy to the matter is routine in nature; or
2. Vote the securities in accordance with a pre-determined policy based upon the recommendations of an independent third party, such as a proxy voting service.

In the event that a conflict still exists, we will disclose the conflict to the client and obtain the client's direction to vote the proxies.

Further information regarding proxy voting policies and procedures, guidelines, or specific information can be obtained by contacting ICAP directly at 312-424-9100.

**Item 18: Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. Our firm is not required to provide such financial information. However, we confirm that we have no financial commitment or condition that would impair our ability to meet contractual and fiduciary commitments to our clients and that we have never been the subject of bankruptcy proceedings.