



## Wafra Investment Advisory Group, Inc.

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*This Brochure provides information about the qualifications and business practices of Wafra Investment Advisory Group, Inc. If you have any questions about the contents of this Brochure, please contact the Chief Compliance Officer, Vincent Campagna at (212) 759.3700 or at [v.campagna@wafra.com](mailto:v.campagna@wafra.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.*

*Wafra Investment Advisory Group, Inc. 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 about which you determine to hire or retain an Adviser.*

*Additional information about Wafra Investment Advisory Group, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

Form ADV Part 2A

March 31, 2015

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## ITEM II- Material Changes

### Annual Update

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According to the Securities and Exchange Commission (SEC) regulations, we will ensure that you receive a summary of any material changes to this and any subsequent *Brochures* within 120 days of the end of our fiscal year. We will also provide other significant information about material changes as necessary.

### Material Changes since the Last Update

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The previous ADV Part 2A dated June 30, 2014, is hereby amended, material changes to which include the following:

Wafra has updated Item X, “Other Financial Industry Activities and Affiliations”, to include newly added/removed entities. In addition, our Assets Under Management have been updated.

Since material changes have been made, we recommend clients and prospective clients review the entire brochure and its supplements.

You may request a copy of our *Brochure* by contacting Mr. Vincent Campagna, Chief Compliance Officer, at (212) 759.3700 or [v.campagna@wafra.com](mailto:v.campagna@wafra.com).

Additional information regarding Wafra Investment Advisory Group, Inc. may also be found by navigating the following SEC link [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## ITEM IV- Advisory Business

Wafra Investment Advisory Group, Inc. (“Wafra” or the “Firm”) has been in business for approximately 30 years. It was originally founded in 1985 to manage funds in the United States for financial institutions of Kuwait and other Gulf States. The Firm is wholly owned by Wafra InterVest Corporation, a Cayman Islands company, which in turn is beneficially owned by the Public Institution for Social Security of Kuwait.

Wafra offers an extensive range of investment and related services including:

**Portfolio Securities Division-** on a discretionary and non-discretionary basis our Securities Division manages a wide variety of equity and fixed income portfolios, other securities and cash.

**Alternative Investments Division-** advises on the selection and portfolio management of alternative investments, including investments in financial institutions, alternative investment management companies, hedge fund products and private equity and credit opportunities.

**Direct Equity Division-** takes positions in lower middle market operating companies with continuing management and executable growth opportunities. We work closely with companies’ management to increase value by improving existing operations, funding internal growth or developing acquisitions strategies.

**Private Asset Management Division-** primarily focuses on investing, managing and administering private equity funds of funds products, having invested in over 100 products represented by numerous different general partners, and advises on mezzanine loan products that participate in debt and subordinated debt opportunities in the US and Europe.

**Real Estate Division-** institutional real estate investments, debt financing, strategic planning, asset management, real estate brokerage services, and hotel management and consulting.

We tailor our advisory services specifically to and in conjunction with each client agreeing on the objective, investment strategies, guidelines and any restrictions.

Assets and commitments under management as of December 31, 2014 are as follows:

In billions	
Discretionary basis	\$6.3
Non-discretionary basis	<u>3.2</u>
<b>Total*</b>	<b><u>\$9.5</u></b>

\* Includes real estate, cash accounts and unfunded commitments.

Division	Assets Under Management (In billions)
Securities	\$2.5
Alternative Investments	3.3
Direct Equity	0.4
Private Asset Management	2.8
Real Estate	0.5
<b>Total*</b>	<b>\$9.5</b>

\*Estimated and as of 12/31/2014. Includes unfunded commitments. Amounts represent recent valuations and commitment amounts that may have changed since the date of this report.

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## ITEM V- Fees and Compensation

We do not maintain a set fee schedule.

Management fee rates, incentive-oriented compensation and other fees are primarily based on the applicable investment strategies, the complexities in deploying such strategies, the structure of the investment vehicle(s) involved, the asset size of the account/client, as well as additional relevant factors. The ultimate fees are concluded based on negotiation with the client, its investors, as applicable, and its advisors. Wafra, its advisory affiliates and investment personnel may participate in incentive compensation arrangements and invest as general partners or managing members, limited partners or limited liability members in Wafra pooled investment vehicles (“funds”).

In addition to paying investment advisory fees and, if applicable, performance-based compensation, the funds may also be subject to other investment fees and expenses. Such fees and expenses may be paid to both affiliates and non-affiliates of the Firm and may include, but are not limited to: administration fees, structuring fees; selling and marketing costs; transaction due diligence and related expenses, including travel and related expenses associated with investments, whether ultimately consummated or not; custodial charges; investment related expenses and fees, including origination, servicing, acquisition or other similar fees; expenses relating to the establishment and maintenance and administration of, and legal and other professional advice relating to, fund general partners or managing members or similar entities, interest expense; taxes, including penalties thereon, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; officers and directors’ fees, which may be affiliates of the Firm; travel and entertainment expenses; legal, auditing, accounting, consulting and other professional expenses including those relating to advisory committee members, and expenses, including travel associated with meetings thereof; administration expenses; research expenses; and any other expenses related to the purchase, preservation, sale or transmittal of fund assets.

The receipt of any foregoing fees or compensation by Wafra, its related persons or affiliates will not reduce or offset any investment advisory fees payable by the applicable fund or funds, unless stated otherwise in a client’s offering memorandum, contract or other governing documents.

In some instances the Firm receives other fees which would be set out or provided for in the client’s investment advisory, limited partnership or operating agreements, private placement memorandum or such other documents as applicable.

Please refer to Item VI for information on performance fees and side by side management, Item X for information about our other financial industry activities and affiliations, and Item XII for more information on brokerage fees.

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## ITEM VI- Performance Fees & Side-By-Side Management

Wafra may negotiate performance fee arrangements with qualified clients. Performance or incentive fee arrangements are subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (the “Advisers Act”) and are structured in accordance with available exemptions, including the exemption set forth in Rule 205-3.

In this instance, the Firm, its affiliates and personnel may receive performance based i.e. incentive fee or carried interest in accordance with the investment advisory agreement with the client, or other applicable governing document. At times, supervised persons at, and affiliates of Wafra may also be entitled to director/officer fees for providing services to investment funds managed by it and in which clients may invest.

Negotiated fixed or asset-based fees calculated on the value of committed and/or a combination of committed and funded capital, or the value of assets under management, as well as performance fee arrangements, may apply to the following:

- Hedge Funds of Funds
- Direct Equity Products
- Real Estate Products
- Hotel Management and Consulting
- Venture Capital Investing
- Private Equity Products
- Direct Equity Investments
- Murabaha (Shari’ah-Compliant) Transactions
- Structured Investments
- Miscellaneous Investment Consulting Services
- Infrastructure and Real Assets Products
- Other Assets and Transactions

Performance based fee arrangements may create an incentive for Wafra and its supervised persons to recommend or select investments which may be riskier or more speculative than investments under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying funds or accounts over others in the selection of investment opportunities. Wafra has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from inappropriately influencing the allocation of investment opportunities among clients.

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## ITEM VII- Types of Clients

Wafra typically provides advisory services to the following types of clients:

- Corporations and other organizations
- Non-U.S. sovereign entities
- U.S. and non-U.S. domiciled funds for non-U.S. institutional investors

<b>Requirements for Opening and Maintaining an Account</b>
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The minimum account size is based on the particular strategy to be deployed and subject to negotiation with a client, which are typically funds or accounts designed for the needs of institutional investors or similar sophisticated investors. Furthermore, a client fund may provide for initial and additional minimum investments, as set forth in its offering and/or similar document.

Typically, each investor in our funds must be a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act of 1940, or an accredited investor in accordance with Rule 501 of Regulation D of the Securities Act of 1933.



## ITEM VIII- Methods of Analysis, Investment Strategies and Risk of Loss

Wafra's principal Investment Divisions, disciplines, and products are:

Securities	Portfolios comprised solely of one or a combination of the following: publicly traded U.S. and non-U.S. equities, U.S. and non-U.S. fixed income, other securities and cash. Certain portfolios may also invest in Shari'ah Compliant Islamically acceptable investments, such as short term murabaha transactions and other Shari'ah Compliant products.
Alternative Investments	Investments in hedge funds, hedge fund replication products, alternative beta products, fixed income alternatives, opportunistic and distressed investments, strategic investments (including, among others, in asset manager equity, seeding commitments and joint ventures), real assets and infrastructure investments, and other direct investments, co-investments and club investments.
Direct Equity	Takes positions in lower middle market operating companies for institutional clients. Works closely with companies' management to increase value by improving existing operations, funding internal growth or developing acquisition strategies.
Private Asset Management	Investment portfolios in investment funds, loans and private securities, as well as portfolio administration services.
Real Estate	Commercial real estate acquisitions, debt financing, disposition, asset management and consulting.

### General Risks

*Our investment strategies are generally designed for investors who do not require regular current income and can accept a high degree of risk. All investment strategies used by the Firm include a risk of loss of principal. Many strategies are complex and difficult to understand. If you are not generally familiar with such risks you are not likely a suitable client and should not consider investing in the strategies used by the Firm. Many of our investment strategies can only be accessed by purchasing interests in funds; investors should carefully read a fund's offering memorandum or similar document and consult with financial professionals, advisors and legal counsel. Wafra funds are generally not available for persons who are U.S. citizens or entities domiciled in the United States. A fund's offering material describes management fees, any incentive-based compensation arrangements and other fees and typically an outline or summary of principal risks.*

### *Investment Strategies*

The Securities Division manages a broad array of publicly traded securities which must adhere to client guidelines for investing and are typically measured against an underlying benchmark. The Division principally focuses on U.S. and foreign equities and fixed income securities, often large capitalization in nature, including multi-currency debt and foreign currency transactions. Each investment is evaluated for suitability against client guidelines and along a multi-level analysis process. The Securities Division also makes investments in Islamic murabaha transactions and at times in futures contracts and options.

### *Methods of Analysis*

We strive to efficiently incorporate external research and data into our proprietary systems and other select screening systems to support a dynamic investment environment. Further work includes technical analysis, one-on-one meetings with management, conferences, phone calls, webinars and individual security analysis. The investment team meets frequently to gain the benefit of the many diverse skill sets among the team. Discussions include topics such as the macro outlook, regional nuances and favorable investment themes and trends. Research systems used by Wafra include Bloomberg, FactSet, various ratings services and sell side research. As securities are publicly traded, generally, relevant information is public and readily available by different means of distribution. Through analysis and effective portfolio management, we try to mitigate risks and closely monitor unrealized gains/losses, stop loss limits and tracking error versus the sub-industry groups, sector and regional allocations. There are valuation tools utilized based on what type of company is being reviewed; some examples include discounted cash flow, enterprise value to EBITDA, price to book and price to earnings, among others. Additional investment characteristics may be analyzed such as, quality of earnings and management, capital structure and future growth prospects. As part of the due diligence process, we conduct a thorough competitive analysis to compare against peers and the rest of the market. After an investment is made, the price and value are monitored on both an absolute and relative basis. Investments are also monitored for a change of investment drivers or thesis.

### *Risks*

Investing in securities entails a range of market, economic and fundamental risks including loss of principal, lower returns than expected and poor performance against benchmarks. Global markets encompass certain risks not normally associated with investments in securities of United States issuers. Such risks include, but are not limited to the following: less liquidity and greater price volatility, currency exchange risk due to fluctuations in foreign currency exchange rates; imposition of exchange control regimes; more limited disclosure requirements from non-United States issuers, different taxation and accounting standards; and economic, social and political risks.

In addition to the foregoing, there are also risks of trading errors. However, the Firm has adopted trade error policies and procedures to effectively monitor, report, and assess the financial impact of trade errors. If a trade error is discovered, and a

Securities Division client suffers a financial loss because of the trading error, then the Firm will promptly direct the reversal of the transaction unless it is not possible or it is inappropriate to do so. In instances where reversing the trade is not possible or is inappropriate, the Firm will compensate the account for the amount of the loss (or will cause the party responsible for the loss to compensate the account), except as following. After a review by the Firm, it may charge any expenses incurred as a result of an error to a client's account to which these errors relate, provided that gross negligence or misconduct on the part of the Firm was not the cause of the error. As a result of the Firm's significant number of client accounts and the large size of the transactions in those accounts, the Firm may elect not to reimburse a client account for any single error which resulted in a loss of less than \$250. Notwithstanding the foregoing, each client is hereby advised that it is not waiving any rights under contract, the Investment Advisers Act of 1940, as amended, other federal securities laws or any non-waivable rights under applicable state law.

## **Alternative Investments Division – AID**

### ***Investment Strategies***

Investment strategies are primarily focused on the following areas: investments in hedge funds, hedge fund replication products, alternative beta products, fixed income alternatives, opportunistic and distressed investments, strategic investments (including, among others, in asset manager equity, seeding commitments and joint ventures), investments in real assets and infrastructure, and in other alternative investment opportunities regardless of asset class.

The hedge fund investment program includes diversified portfolios of hedge funds with relatively liquid holdings and diligence procedures designed to identify, and avoid, hedge fund businesses with operational risk. Typically, portfolios are constructed to diversify exposures across asset classes, geographies, duration, liquidity, hedge fund strategies, and managers, using a number of strategies, such as, for example, commingled fund investments, separate accounts, hedge fund replication products, index products, exchange traded funds, and swaps and other derivative strategies.

The fixed income alternatives investment program includes diversified portfolios of alternative fixed income investments, expressed through commingled fund investments, separate accounts and direct investments in securities and other assets. Portfolios are constructed to diversify exposures across the fixed income asset class, alternative fixed income strategies, geographies, duration, liquidity and managers. Diligence procedures include, with respect to investments in funds sponsored by managers, evaluation of such manager's investment track record, portfolio management and risk management processes, and operations platform and, with respect to investments in securities and other assets, fundamental credit analysis and risk identification.

The opportunistic investments strategies, including distressed investments, also known as Dislocation, are designed to capture less-liquid investment opportunities in an asset-liability matched structure. Portfolios are typically constructed with some thematic concentration that is designed to exploit one or more dislocated investment

opportunities. Diligence procedures focus on financial analysis, operational risk review, management team review, and performance record review and, as applicable, investment and risk management processes by managers. These strategies are principally implemented via commingled fund investments, direct investments, co-investments and club investments, and are not limited to asset class or sector.

Strategic investment strategies are designed to obtain revenue sharing or profit sharing economics from asset managers, either by seeding the business in exchange for an economic interest in the firm, or via a buyout or acquisition of a stake in the firm. These strategies are principally implemented via direct investments, as well as via club investments and commingled fund investments. These strategies also encompass other strategic opportunities, such as joint ventures and capital partnerships.

The real assets and infrastructure investment strategies are designed to invest in institutional quality investment opportunities across the real assets and infrastructure universe. These strategies target global opportunities across the capital structure, including both greenfield and brownfield opportunities and opportunities in niche and out-of-favor sectors. Investment discipline may include partnering with experienced management teams, a focus on economic alignment and proper governance and diligence procedures, including, for example, market research, financial and business plan analysis, management team review, return scenario analysis and identification of key risk factors. These strategies are principally implemented via direct investments, joint ventures and co-investments.

### *Methods of Analysis*

Qualitative and quantitative analyses are used when potential investments are considered. AID personnel typically meet and interview management teams before investments are made in an effort to understand their background, investment approach, competitive advantages, performance record, investment methodology, risk controls and portfolio management guidelines and to conduct other appropriate due diligence. Before investment, AID may perform peer group analysis and investment due diligence to understand, among other things, available opportunity set, market correlation, manager correlation, past performance, drawdowns, and the expected return/risk profile, among other factors. Operational due diligence is conducted, which may include, though is not necessarily limited to, review of legal documents and financial statements, background checks on firms and key personnel, reference checks, reviews of business infrastructure and reviews of third-party service providers such as administrators and auditors.

For direct investments, joint ventures, co-investments and club investments, similar analytical processes are employed with additional focus on the specific investment presented, quantitative and qualitative return/scenario analyses and review of the market opportunity. Quantitative analyses may include, but is not necessarily limited to, studying the macroeconomic environment, the target region, relevant demographic trends and market dynamics, the competitive landscape, revenue drivers, profitability and cash flows of the business. Qualitative analyses may include, but is not necessarily limited to, meeting and judging management teams, capabilities, competitive advantages, past track record, future business plans, and integrity. In

addition, AID focuses on legal analysis and transaction structuring, utilizing internal resources and external professional advisors as appropriate.

### ***Risks***

Material risks include illiquidity and loss of principal. Underlying hedge fund investments may have lock-ups before redemptions are allowed, which may be 12 months or more in length, or penalties associated with early redemptions, with redemption notice periods as long as, and in some cases exceeding, 90 days. These constraints may limit or influence exit decisions with respect to investments. Underlying hedge fund managers who experience large redemptions may in turn experience impediments to liquidating their portfolios and may determine to extend redemption timelines. In addition, large redemption requests can cause funds to close down or trigger gates that prohibit redemptions. Hedge funds can potentially lose 100% of investor principal, especially when large amounts of leverage are applied. Certain hedge fund strategies and returns may be adversely affected when large outflows occur in small asset classes and/or thinly traded securities. Other risks include valuation difficulties, as some hedge funds trade in hard-to-value instruments, such as asset-backed securities and private securities. In addition, counterparty risk is present at the underlying commingled investment fund level and at the overall fund level, including the risk that a counterparty will be unable to perform with respect to transactions, whether due to its own insolvency or bankruptcy or that of others, adverse market conditions, illiquidity, disruption or other causes. Any form of default by such parties could result in material losses.

Opportunistic investments, strategic investments (including asset manager equity and seeding commitments) and real asset and infrastructure strategies are sought or may be structured to be self-liquidating through the cash flows of the investment. Exits requiring market participation such as a buyout or initial public offering may be affected by adverse market conditions or other circumstances, possibly extending holding periods or leading to realizations at values less than forecasted or initial principal invested. Direct investments, co-investments and club investments may lose money in various ways, including, without limitation, unexpected losses/expenses/costs, changes in market dynamics, failures in execution of the business strategy, changes in management, underestimated or unforeseen competition, litigation and regulatory issues and constraints.

## **Direct Equity Division**

### ***Investment Strategies***

The Direct Equity Division believes that the lower middle market provides superior returns potential due to the following characteristics: larger number of investment opportunities; the less competitive and inefficient market can lead to lower purchase price multiples; greater growth opportunities; discernible value creation opportunities through strategic initiatives; more exit alternatives; and historically higher probability of exit multiple expansion.

The Division focuses primarily on control equity investments in companies with annual revenues between \$10 million and \$150 million and annual EBITDA between \$2 million and \$15 million. It expects to invest between \$7 million and \$40 million

in each company, and to generate a substantial portion of total return through capital gains. It targets successful companies with the following characteristics; continuing core set of senior managers; good relative financial results, even during downturns; discernible and executable growth drivers; realistic possibility for exit multiple expansion; defensible business model (market leaders, niche markets, high barriers to entry); and potential for substantial EBITDA (earnings before interest, taxes, and depreciation) growth over the targeted investment timeframe.

Within the North American lower middle markets, the group concentrates its investments in companies in the following industries: consumer products; consumer-driven services such as education and healthcare services; business services; and niche manufacturing.

### *Methods of Analysis*

The initial screening test utilizes a proprietary scorecard that rates deal specifics, industry dynamics and company-specific characteristics. Analysis incorporates usual data such as market size and growth and also analyzes whether or not there exists sustainable profitable market niches and what core competencies would provide realistic growth drivers in such niches.

The group creates an investment thesis analyzing whether value creation will come from organic growth, accretive acquisitions, capacity expansion, new product or service development, and/or debt reduction, and then develops an appropriate capital structure. We believe companies with moderate organic growth but strong free cash flow will be more likely to generate a significant portion of the expected internal rate of return through debt reduction. We also believe that those companies with faster expected growth and capital needs will typically need higher equity capitalization. Knowledge of financing alternatives in the lower middle market is brought to bear in developing the capital structure.

The primary valuation tool is a buyout model which uses the forecasted financial statements of a prospective portfolio company to determine a projected internal rate of return to investors. Personnel scrutinize the forecasted financial statements, based on a company's prospects and the industry dynamics, because they are integral in determining future equity value. Another important factor is the proposed transaction structure, which principally means the breakdown of the purchase price between equity and layers of debt. The first step in transaction structuring is to determine the amount of senior debt and mezzanine financing that would be available based on the investment thesis for such company. The group determines the types and amounts of debt that are appropriate and tests such conclusion through the credit analysis statistics incorporated in the buyout model. The structuring process is designed to leave the company with sufficient cash flows to comfortably cover its obligations and generate an acceptable internal rate of return to investors.

In addition to the buyout model, the group evaluates company value through comparable transaction pricing and comparable public company valuations. Discounted cash flows are also used as a valuation tool in limited circumstances.

Once the potential merits of an investment opportunity are assessed, the group conducts rigorous due diligence of the target's management, business, and relative



position in the target's industry, including an analysis of the target's cash flows and quality of earnings. The most important element is determining whether the investment thesis is executable based on the company's core competencies and management team. As part of its due diligence, the group regularly employs the services of various third-party providers to prepare market studies and reports, evaluate the potential for operational improvements, perform background checks on managers and the target companies and gather other information of relevance to a potential investment in a particular target company.

The Division establishes a close monitoring relationship with each of its portfolio companies, with the appropriate degree of management independence. Wherever possible, a member of the Division will participate as an observer or board member on portfolio company boards of directors. The group develops financial reporting packages to track the traditional financial statements and the performance data relevant to how effectively management is executing on the investment thesis.

The Division also seeks to create value and generate attractive returns by keeping each portfolio company management team focused on the key success factors essential to the investment thesis. The group may assist management with organizational upgrades, evaluation of strategic initiatives, infrastructure strengthening, continual cost review, development of appropriate incentive plans, identification and evaluation of key value drivers, accretive acquisitions, sharing contacts and best practices amongst portfolio companies, and increased financial discipline.

The Division seeks to enhance the financial performance and value of portfolio companies, after which it seeks to sell them to strategic or financial buyers.

### **Risks**

Private equity investments in portfolio companies involve a high degree of business risk and uncertainty. Portfolio companies may be in an earlier stage of development, may have significant variations in operating results, may be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, or may otherwise have a weak financial condition.

Portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

Each of the Division's private equity products participate in a limited number of portfolio investments and, as a consequence, the aggregate return of each product may be substantially adversely affected by the unfavorable performance of a single portfolio investment.

The use of leverage, which exposes the borrower to changes in price at a ratio higher than 1:1 in reference to the amount invested, magnifies both the favorable and unfavorable effects of price movements on the investments

Illiquidity may result from the absence of an established market for portfolio investments as well as from legal or contractual restrictions on their resale. Except in very limited circumstances, private equity investors may not sell, transfer, exchange, assign, pledge, hypothecate or otherwise dispose of their interest in the funds invested (or any portion thereof), nor may they withdraw or redeem from such fund.

Although it is the intent of the Division to invest in companies with strong and stable management, there can be no assurance that the management team of a portfolio company will be able to operate successfully.

## **Private Asset Management Division - PAM**

### ***Investment Strategies***

PAM is currently and primarily making investments in and managing and administering private equity funds of funds products, having invested in over 100 products represented by numerous different general partners, and advising on mezzanine loan products that participate in debt and subordinated debt opportunities in the US and Europe.

PAM investment strategies include:

- Sourcing, originating, evaluating and analyzing investment opportunities based upon specific client objectives
- Performing in-depth due diligence on investment opportunities under serious consideration
- Determining efficient investment structures and negotiating documentation, with assistance from outside professionals such as legal and tax counsel
- Post-closing handling of investment related matters, including cash management, and reporting on underlying portfolio managers on a quarterly and annual basis
- Overseeing preparation of annual audits and any tax-related matters
- Oversight and management responsibility for the administration of funds and underlying investments

### ***Methods of Analysis***

When considering a fund investment, the due diligence process includes meetings with the principals of a fund general partner, a review and analysis of the operation, strategy, and target areas of focus. Initial analysis includes review of the team's prior performance, fund size, team experience, sector and geographic focus. The respective general partner's investment returns are evaluated and reference checks generally performed. Fund structure, terms of the offering, investment and divestment processes, conflicts of interest, and consistency of the strategy and the



team are reviewed and evaluated. Once an investment is made, PAM oversees and manages the administration of the funds and underlying investments.

When considering a direct investment, the due diligence process typically includes several meetings with the management, a review of their operations, internal controls and strategy, as well as reference checks. PAM also conducts credit analysis and due diligence to support the initial assessment. The team will gather diligence through a variety of sources, including; offering documents, due diligence packages and on-site visits. Industry analysis may also be conducted to better understand and verify the attractiveness of the company in relation to its peers.

### ***Risks***

Material risks can include illiquidity; potential for loss of principal invested; inability to liquidate, sell or transfer an investment; use of leverage at the underlying fund and/or company level; general partner; instability or changes in global or local economic market environments; tax and regulatory issues; country and political risks; conflicts of interest; foreign exchange; and potential for litigation.

<b>Real Estate Division</b>
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### ***Investment Strategies***

Although investment vehicles can maintain a high degree of flexibility in terms of choice of investment emphasis, Wafra's current focus is investment principally through acquisitions in the following asset classes, primarily through establishing a vehicle for a client or a group of investors:

- Office/Industrial Buildings
- Apartments
- Participation
- Lodging
- Retail Properties
- Development Opportunities

### ***Methods of Analysis***

Particular attention is paid to property sector and geographic allocations to assure proper portfolio balance. Investments for Shari'ah-compliant funds may have sector allocations heavily weighted to a specific property type in order to adhere to investment limitations.

Opportunities are sourced largely through regular contact with major real estate operators, developers, brokers, entrepreneurial property holders, financial intermediaries, previous partners and other institutional owners. The Division identifies investment opportunities, performs economic analysis, negotiates and effects acquisitions, and manages the investments through its Asset Management Group until disposition.

Certain keys to successful sourcing of investments are having (i) a wide network of knowledgeable contacts, (ii) a strong reputation for financial capability, real estate operating experience, decisiveness and fair-dealing, and (iii) a willingness to structure operating arrangements that address the particular needs or concerns of the user of capital, while seeking to maintain maximum investment potential for the investor. Wafra's ongoing presence in the market and success in negotiating and closing transactions has resulted in our regular solicitation for major transactions.

When appropriate, the Division utilizes financing structures to leverage direct investments.

Prior to acquisition, the Division assesses the physical, legal and financial condition of a property, creating a discounted cash flow model based on macro- and micro-economic factors. Qualitative and quantitative assumptions are evaluated and a sensitivity analysis performed to study the effects of changes and confirm the investment expectations. Market data including demographics, growth patterns and employment drivers are confirmed with published third-party reports. Financial projections are verified using real estate industry publications and other independent sources. Supply and demand drivers are verified against market and property research. Competitive properties are studied as well. The Division completes an in-depth quantitative financial analysis for each potential acquisition. Each financial projection is substantiated based on property and market trends.

Prior to closing, each approved investment property goes through due diligence to confirm and support its acquisition. Each property undergoes a thorough investigation of the physical asset, including inspections of exterior, common areas, interior tenant spaces, and consideration of the age of internal building systems. Third- parties are consulted to perform physical inspections of the property including environmental and engineering inspections to aid in the Division's overall risk assessment of the property. Zoning laws and overlay districts are researched. We may engage a third-party appraiser to determine the value of the property to be sure the proposed pricing is in line with the market. The Division may undertake a lease audit which will include verifying historical operating data at the property as well as security deposits, cash on hand, tenant complaints, property issues, lease terms and rates. Vendor and third-party contracts and other expenses are reviewed to determine that they are within market pricing, and that contract terms are acceptable prior to assigning to new ownership, if appropriate. Title searches are conducted and title insurance purchased to protect the investment interest in the real estate and ensure properly-titled deed and liens. If financing is appropriate, existing loan terms are reviewed or if necessary, new documents are negotiated that are consistent with the clients' objectives and risk/return spectrum. Background checks and financial due diligence are conducted on new partners. Each partner is typically required to provide financial statements, and undergo a personal and company background search to check for bankruptcies, foreclosures, defaults, and criminal acts.

The Division evaluates and integrates due diligence findings into the investment decision and investment strategy.

Once an investment is made, weekly conference calls are generally held with property managers to address any operational and leasing issues or performance variances. On-site

inspections of assets are generally conducted a minimum of four times a year, and more often for properties undergoing major renovations or development. There is a proactive approach to leasing as well as a prudent and strategic approach to capital expenditures in an effort to maximize value at the property level. Property level business plans are prepared annually to assess a property's performance against the benchmark previously established and to set the goals and objectives for the pending year.

### **Risks**

Investments in real estate properties, partnerships, leases and mortgages entail inherent risks. There can be no assurance that investments will meet expectations. The nature of real estate investments potentially may result in the client investment incurring significant fees and expenses, such as legal and various consulting fees and expenses.

- Distribution risks: There is no surety of achieving investment objectives as certain significant expenditures associated with real estate, such as rental rates, mortgage payments, real estate taxes and maintenance costs may not have a direct correlation with, and thus not diminish in proportion to, a reduction in income from the property. Reductions in value or cash flow could impair an investor fund's ability to make distributions to clients and reduce overall returns on investments.
- Properties under Construction: Properties under construction are subject to various risks. Cost and timely construction may be adversely affected by strikes, shortages of materials, subsoil risks, uninsurable losses and other factors beyond a fund's control.
- Leverage: An investing fund may elect to leverage its investments on a non-recourse basis or otherwise engage in certain investment activities that involve the use of leverage. While leverage presents opportunities for increasing an asset's total return, it also increases the potential for loss.
- Potential Lack of Diversification: Some of the investing funds are Shari'ah-compliant and as such may have limitations which do not allow for property or diversification.
- Third-Party Investment: An investing fund may co-invest with third-parties through funds, joint ventures or other entities. Such investments may involve risks not present in investments where a third-party is not involved.
- Investment Environment: The activities of an investing fund and its real estate portfolio could be adversely affected by the instability of the U.S. or global financial markets, or changes in market, economic, political or regulatory conditions, as well as by numerous other factors outside the control of the fund. Interest rates and general levels of economic activity may affect the value and number of investments made by the fund or considered for prospective investments.
- Conflicts of Interest: The activities of an investing fund and its real estate portfolios could be adversely affected by the investments of another fund controlled by Wafra on behalf of another client or group of investors. Generally, a general partner of a fund will have broad discretion to engage, and does engage, its affiliates, including Wafra, to provide services, in addition to advisory or similar services for which they may be compensated pursuant to an advisory and management agreement, for

compensation. The services which Wafra renders to its clients are not exclusive. Wafra and its affiliates advise and will continue to advise other clients. In addition, those parties may serve as the general partner of limited partnerships or investment advisor or such other capacity for many pooled investment vehicles engaged in investment activities, and may invest their own funds in one or more such partnerships or investment vehicles. Wafra and its affiliates may form other such partnership investment vehicles in the future. Wafra and its affiliates will from time to time invest a client's assets in investments also purchased by other clients of the foregoing ("Other Accounts"). Wafra or its affiliates may give advice or take action in performing their duties to Other Accounts, or for their own accounts, that differ from advice given to or action taken for another client. Wafra and its affiliates are not obligated to buy, sell or recommend to a particular Real Estate Division client any investment or other asset that it or its affiliated persons may buy, sell or recommend for any Other Account or for their own accounts. Wafra will use its best efforts to ensure that purchases or sales on behalf of a client will be on terms no less favorable to a client than those accorded to Other Accounts.

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## **ITEM IX- Disciplinary Information**

Wafra and its affiliates have not been involved in or subject to any material, legal or disciplinary events which we believe a client or prospective client would consider material to its relationship with us including but not limited to, criminal and civil actions by administrative proceedings with respect to the U.S. Securities and Exchange Commission (the "SEC") or any federal or state or non-U.S. regulatory authority.

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## ITEM X- Other Financial Industry Activities and Affiliations

### A.

Certain employees of Wafra are also owners and/or registered representatives of a registered broker-dealer, Wafra Securities Corporation (“WSC”), a U.S. SEC registered broker-dealer and FINRA member. Please see response below to Item X(C)-1.

### B.

Neither Wafra nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### C.

#### 1. BROKER DEALER

Certain employees of Wafra are also owners and/or registered representatives of Wafra Securities Corporation (“WSC”), a U.S. SEC registered broker-dealer and FINRA member. WSC may effect portfolio transactions from time to time for clients of Wafra, such as private placements and best-efforts underwriting and from time to time provide consulting and other services to Wafra clients and other third parties. WSC may also act from time to time as a private placement agent, offering interests in funds managed by Wafra and its affiliates. Other non-U.S. affiliates of the Firm may at times provide placement and similar services to their respective non-U.S. clients. The use of an affiliated placement agent relating to any client is on a fully disclosed basis.

#### 2. INVESTMENT COMPANY OR OTHER POOLED INVESTMENT VEHICLES

Wafra and certain of its affiliates act in the capacity as investment adviser, fund manager, general partner, or in a similar capacity or provide administrative or other services for one or more pooled investment vehicles, such as closed-end funds, private investment companies and hedge funds, and sometimes for subsidiary investments by such vehicles. These funds and companies are also generally advised by Wafra or an affiliate. These entities are described in Item X(C)-11. Our various roles are fully disclosed to clients.

#### 3. OTHER INVESTMENT ADVISER OR FINANCIAL PLANNER

Below is a list of investment advisers, managers and other service providers (“Related Service Providers”) with which Wafra or its affiliates have economic and other financial arrangements. These Related Service Providers at times may be engaged by clients of Wafra. Wafra, its affiliates, and personnel may invest in client funds or recommend that clients invest in investment products that are being managed by such Related Service Providers.

- i. **Wafra Capital Partners Inc. (“WCP”)**, a U.S. SEC registered investment adviser, is an affiliated company of Wafra. WCP’s advisory services principally focus on structuring and advising investment vehicles in the equipment leasing, structured finance and real estate arenas that generally, though not always, are intended to comply with Shari’ah principles, as well as debt and financial structures and leverage-oriented investments that are also often designed to comply with Shari’ah principles. Each of Wafra and WCP may provide services

- to each other and their respective clients from time to time, on a fully disclosed basis.
- ii. **WP Global Partners Inc./ WP Global Partners LLC ("WPGP")**, a U.S. registered investment adviser, is an affiliated company of Wafra. WPGP does not perform any advisory or other services to Wafra or on Wafra's behalf for its clients.
  - iii. The following non-US affiliates of Wafra provide from time to time to Wafra, its affiliates and non-US clients services outside of the US which include, advisory, business consulting strategic planning, placement or similar services, administration and other services, which can be material to Wafra's business or its clients:
    - Wafra InterVest Corporation
    - Wafra Fund Management Ltd.
    - Wafra Capital Partners, LP
    - Wafra Capital Partners (Luxembourg) S.A.R.L
    - Japan Advisors, Ltd.

Their respective relationships and services provided, if any, to Wafra and or any client, are disclosed to clients, and generally set out in the relevant client agreements and, if applicable, prospectus or similar documents. For providing their services, the Firm's related persons may receive fees from Wafra or its clients. Such arrangements are generally in writing and provided for along with any other material information in the relevant client agreements and, if applicable, prospectus or similar documents. Agreements may provide that a portion of fees otherwise payable to Wafra will be paid or allocated to such affiliated entities. Also at times, clients may engage these affiliates directly and incur fees independent to the advisory services provided by Wafra. It is our policy to provide advice and recommendations to clients on the merits of an investment recommendation or transaction, not our relationship with our affiliates.

#### **4. FUTURES COMMISSION MERCHANT, COMMODITY POOL OPERATOR, OR COMMODITY TRADING ADVISOR**

Wafra is a commodity pool operator which relies on 4.13(a)3 for an exemption from registration with the Commodities Future Trading Commission.

Other than as immediately just set forth, neither Wafra nor any of its management persons have any relationship or arrangement with any futures commission merchant, commodity pool operator, or commodity trading advisor that is material to our advisory business or to our clients.

#### **5. BANKING OR THRIFT INSTITUTION**

As part of the execution of certain Wafra strategies, including majority and minority investment stakes in banking and similar financial institutions, our investment professionals at times may act as board members, board observers and/or advisory committee members to such entities and may be compensated by the entities for such service.

Wafra addresses potential conflicts through its policy of not utilizing the services of those financial institutions and/or engaging in any investment banking transactions with the financial institutions on its or its clients behalf.

#### **6. ACCOUNTANT OR ACCOUNTING FIRM**

Neither Wafra nor any of its management persons have any relationship or arrangement with any accountant or accounting firm that is material to our advisory business or to our clients.

#### **7. LAWYER OR LAW FIRM**

Neither Wafra nor any of its management persons have any relationship or arrangement with any lawyer or law firm that is material to our advisory business or to our clients. The Firm's supervised employees include lawyers.

#### **8. INSURANCE COMPANY OR AGENCY**

Neither Wafra nor any of its management persons have any relationship or arrangement with any insurance company or agency that is material to our advisory business or to our clients.

#### **9. PENSION CONSULTANT**

Neither Wafra nor any of its management persons have any relationship or arrangement with any pension consultant that is material to our advisory business or to our clients.

#### **10. REAL ESTATE BROKER OR DEALER**

Wafra is a licensed real estate broker as well as the sole shareholder of a real estate brokerage firm, 345 Realty Services, Inc., which along with Wafra may from time to time receive fees in connection with real estate transactions on behalf of Wafra's clients. Commissions are set on an arm-length basis and are fully disclosed.

#### **11. SPONSOR OR SYNDICATOR OF LIMITED PARTNERSHIPS**

Following are general partners, managing members and advisers that serve in such respective capacities to funds and other entities advised by Wafra.

Related General Partner/ Manager/ Advisor	Partnership/ LLC name/ Fund name
Wafra MMV GP	MMV Private Equity Fund L.P.
AHED Ventures Limited/ Wafra Partners, L.P.	AHED C.I. Limited
Wafra V GP, L.P.	Wafra Private Equity Fund V, L.P.
SDF (IMB) GP Ltd.	StarVest Dislocation (IMB) LP
Wafra RealVest IV GP, L.P.	RealVest Fund IV, L.P.
Wafra RealVest V GP, L.P.	RealVest Fund V, L.P.
Wafra RAWA GP Co.	Rawa Investments LP
StarVest Dyal GP Ltd.	StarVest Dyal (A) L.P.
	StarVest Dyal (B) L.P.
Wafra Investment Advisory Group, Inc. / Wafra Fund Management Ltd.	StarVest Funds Ltd.
"	StarVest Multi-Strategy Fund Ltd.
"	StarVest Fixed Income Plus Fund Ltd.
"	StarVest Equity Alternatives Fund Ltd.
"	StarVest Strategic Fund Ltd.
"	StarVest Dislocation Fund Ltd.
"	StarVest Dislocation Fund II Ltd.



"	StarVest Dislocation Fund III Ltd.
"	StarVest Dislocation Fund IV Ltd.
"	WSI VGO Fund Ltd.
"	Wafra Strategic Investors LP
"	VentureVest II
"	International Mezzanine Fund Limited
"	International Mezzanine Fund II Limited
"	Wafra/Aref International Value Added Fund
"	Wafra/Aref International Value Added Fund II
"	Rawa Investments LP
"	Manhattan InterVest Equity Fund II
"	Manhattan InterVest Equity Fund III
"	Funds of Private Equity Funds <sup>1</sup>
"	Yamada Holding Ltd.
Wafra GH-GP L.P	Wafra Global Holdings L.P
Wafra Dislocation U.S, LLC	StarVest Dislocation Sub-Fund Ltd.
"	StarVest Dislocation Sub-Fund II Ltd.
"	StarVest Dislocation Sub-Fund III Ltd
"	StarVest Dislocation Sub-Fund IV Ltd.
Wafra Select Capital GP LP	Wafra Select Capital Ltd.
"	Wafra Select Capital Master LP
Wafra Strategic GP Ltd.	StarVest Strategic Sub-Fund L.P
SMCF-I-GP LLC	Silar MCF-I, LLC

<sup>1</sup> The Private Asset Management Division manages a series of accounts which in turn invest in one or more private equity-like funds. YOU MAY REQUEST ADDITIONAL INFORMATION ON THIS SERIES OF ACCOUNTS BY CONTACTING WAFRA.

From time to time, Wafra may serve as an investment advisor to other funds and entities, disclosure of which, would typically be included in such funds' offering memorandum or similar document. In addition to the above, Wafra and its affiliates, the related general partners, managing members and advisers that serve the Wafra funds and other entities, have established holding companies and investment vehicles for specific investment purposes, including "co-investment" activities (as further set out below) relating to certain funds and other client investments. For example, a client's investments in real estate often will be handled through a holding company with subsidiary entities, or a private equity investment might be lodged in a separate entity.

In addition, when Wafra structures performance fees for Wafra funds, the contractual arrangements and fees may involve the general partners and managing members of the funds. Legal and tax reasons, do not change the character or amount of fees paid by a client fund or its investors, and do not modify our obligations to clients in any way.

General partners and managing members may serve in such capacity for one or more related limited partnerships or limited liability companies established for investment structuring and administrative purposes for Wafra advised funds. Except as may otherwise be provided for in a client fund's offering or similar governing documents, any fees or other payments to such entities, or individuals, by clients, or Wafra or its affiliates do not increase client fees.

In addition, Wafra's affiliated registered investment advisers, WPGP and WCP, manage and have affiliates which act as, general partner, manager or in a similar capacity to, pooled investment funds and other entities, information with respect to can be found in their respective disclosure documents which Wafra can provide upon request or which you can obtain by navigating the following SEC link [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The Firm and/or an affiliate may from time to time lend money to certain clients to assist them in their liquidity needs, and with respect to certain clients that may only invest in accordance with Sharia'h law, engage in murabaha transactions with such clients. These clients may be funds which are affiliates of, or controlled by, the Firm or its affiliates. In the event that a fund transacts or engages in contracts with those parties, the Firm or its affiliates negotiate the transaction or contract terms on behalf of the fund. A conflict of interest may exist with respect to such negotiations. The Firm has adopted policies and procedures designed to ensure that, based on all of the factors and circumstances involved, the terms of such transactions or contracts are equitable to the funds. Nevertheless, such transactional and/or financial terms may not be derived through "arm's-length" negotiations.

The Firm and or its affiliates and their respective employees, officers and directors may invest in assets and securities in which the Firm has invested client assets, which terms of investment may differ from those of the applicable client. For example, the Firm and or an affiliate may establish an investment vehicle and act as general partner or in a similar capacity to it, through which the Firm and or its affiliates and their respective employees, officers and directors may invest in transactions alongside those of a client (a 'co-investment') and which will not incur the management or incentives fees that the client will incur. Typically, these co-investments are meant to align the interests of the client and the Firm and its affiliates and or their respective employees, officers and directors, as applicable, with those of the client.

<b>D.</b>
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WIC, the owner of 100% of Wafra, may at times be engaged by an institution or fund to provide investment and related services. On a fully disclosed basis to such institutional clients and funds, WIC may engage Wafra to provide all or any portion of such investment services, including advisory services. Please see response above to Item X(C)1.

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## **ITEM XI- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Wafra is a registered investment adviser with the SEC and has adopted a code of ethics (the "Code") as required by Rule 204A-1. This Code also reflects the Firm's standards for the conduct of its business and for the performance of the Firm's duties to clients. All officers, directors, partners and employees of Wafra and any other person who provides advice on behalf of Wafra and is subject to Wafra's control and supervision (referred to as "Associated Persons") are required to adhere to the Code, and to conduct themselves at all times in compliance with the following standards:

- The Firm has a strict policy of complying with all applicable laws, rules and regulations, including but not limited to Federal Securities Laws
- As a fiduciary for its clients, it is the Firm's policy to act in the interests of its clients and adhere to the highest ethical standards in its dealing with clients
- The Firm and its Associated Persons will deal with all clients in the utmost good faith and will disclose to clients all material facts relating to the advisory relationship

Wafra has appointed a Chief Compliance Officer, the CCO, to administer the Code and Wafra's compliance program. Associated Persons must be alert for any potential conflicts of interest between Wafra's interests and the interests of its clients, and for any improper activity on the part of other Associated Persons, and promptly report any known or suspected violations to the CCO. Associated Persons must give prior notice of, and under certain circumstances receive approval for, certain outside activity in which they wish to engage. This includes outside business interests, receipt of gifts beyond certain threshold levels personal trading of securities, and maintenance of personal brokerage accounts.

We have adopted policies designed to prevent insider trading that applies to securities trading and information handling by all Associated Persons of Wafra (including spouses, minor children and adult members of their households and any other relative of a Wafra Associated Person on whose behalf the Wafra Associated Person is acting) for their own account or the account of any client of Wafra.

Under the Code and compliance program all employees are designated as either "Access Persons" or "Non-Access Persons". Access Persons generally include officers and directors and any supervised persons who have access to nonpublic information regarding any purchase or sale of securities by or for a client, or who is involved in making securities recommendations to clients, or who has access to such recommendations that are nonpublic. Access Persons are generally required to obtain the permission from the Firm prior to purchasing or selling any security for their personal accounts other than: (i) those in any individual trade or aggregation of a series of trades in the same company's securities within a five business days period, which are less than or equal to \$15,000 (ii) direct obligations of the U.S. government, (iii) bankers' acceptances, bank certificates of deposit, commercial paper and high-quality short-term debt instruments, including repurchase agreements, (iv) shares issued by money market funds, (v) shares issued by open-end funds, (vi) Exchange Traded Funds ("ETFs"), (vii) options on ETFs and (viii)

certain other securities in which the firm and clients do not themselves regularly invest in, or at times, which the Firm has determined pose little to or no risk for conflict with client transactions. For Non-Access Persons, and certain Access Persons exempted by the Firm, advance approval for the trading of securities is not necessarily required. However, all transactions in securities (except those noted above) occurring in all employees' accounts are regularly monitored and reviewed.

Access and Non-Access Persons are required to submit reports detailing their personal securities holdings of reportable securities as defined in the Code on an initial basis and an annual basis and to report transactions quarterly typically through submitting brokerage account statements and trade confirmations.

Access Persons must obtain prior written approval from the Chief Compliance Officer or Chief Financial Officer before investing in initial public offerings ("IPOs") or limited offerings (i.e., private placements).

If you would like a copy of Wafra's Code of Ethics, please forward your written request via facsimile at (212) 813-9488 or to:

Attn: Chief Compliance Officer  
Wafra Investment Advisory Group Inc.  
345 Park Avenue, 41<sup>st</sup> Floor  
New York, New York, 10154-0101

In the course of managing Wafra's private accounts or pooled investment vehicles, occasions arise where the investment needs of two clients warrant the sale or transfer of a security from one client to another. It is the policy of Wafra that the price at which such securities are traded shall be determined on a basis that is fair, reasonable and equitable to all clients and in a manner to avoid any actual or appearance of favoritism or discrimination among clients in favor of a preferred client or group of clients.

It is Wafra's policy and practice to permit its clients to engage in agency cross trades provided that no client is "disfavored." Where the Firm is performing an agency cross transaction and either the Firm or an affiliate is acting as a broker in connection with the transaction, then the agency cross transaction may only be performed if the Firm complies with the following provisions: (i) the advisory agreement with the client or the client discloses that principal or agency cross transactions may be entered into; (ii) the Firm has disclosed in writing the capacity in which the Firm is acting, the price information, discussion of the potential conflicts and the option for the client to refuse consent; (iii) the Firm has obtained written consent from the client; and (iv) every cross transaction must receive prior written approval of the CFO or the CCO.

Such transactions may create a conflict of interest because the Firm has a duty to obtain the most favorable price for advisory clients. Accordingly, in engaging in cross transactions, Wafra will follow procedures outlined in the Cross Trade Policy of Wafra's Compliance Manual designed to ensure that all parties to the transaction receive at least as favorable a price as would be received if the transaction were executed in the open market.

We and our affiliates sometimes enter into agreements with prospective investors that allow for different terms of investment in a fund than the terms applicable to other fund investors. As a result of such side letters, certain fund investors may receive additional benefits that other investors in the same fund will not receive. In general, we will not notify fund investors when we enter into these agreements.

Please also see responses to Item X for additional information about conflicts of interest.

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## ITEM XII- Brokerage Practices

In selecting broker-dealers, Wafra's primary consideration is the broker-dealer's ability to provide best execution of trades, including the market price and commission or other execution charge. Other factors include commission rates, research services; quality, breadth, depth, analyst availability and location, ability to generate new investment ideas, ease of research use, and access to industry conferences and seminars.

Commission rates or other execution charges paid to broker-dealers will be determined through negotiations, taking into account industry norms for the size and type of the transaction and the nature of any research provided. Research services may include: analyses and reports concerning economic factors and trends, industries, on-line research providers and the related software and hardware components, specific securities and portfolio strategy. Research services may be used in connection with all of Wafra's advisory accounts (excluding any ERISA accounts or accounts of clients which have specifically prohibited this activity), and in some instances such services may not be used in connection with a particular account that paid commissions to the broker-dealers providing such services. Wafra may pay broker-dealers commissions (or other execution charges) in excess of the lowest rates available if Wafra deems such commissions or other charges to be reasonable in light of the value of the brokerage and research services received from such broker-dealer. If a client directs us to use a certain broker-dealer, that client may forgo the benefits of savings on execution costs, which the firm may otherwise be able to obtain.

Wafra has entered into soft dollar arrangements with brokerage firms where if they receive a certain amount of commissions, Wafra may receive certain services. If research services have an administrative use, Wafra will pay cash for that allotted portion. Examples of services received include on-line research providers and other periodical research materials. We currently have in place soft dollar arrangements established in accordance with SEC safe harbor guidelines under Section 28 (e) of the Securities Exchange Act of 1934 with respect to the following brokerage and research services providers: Bloomberg, Capital IQ, FactSet, S&P Index Data and Creditsights, NYSE, OPRA, Toronto Stock Exchange, MSCI Index Data, Advantage Data, Citi Index Data, Vertical Research Partners, Gerson Lehrman Group, The Liscio Report and Cornerstone Macro Research.

Wafra may arrange for execution of orders for the same security for several clients' accounts on the same day on a "bunched" basis. This may enable Wafra to obtain more efficient executions at better prices than if each client's order were executed separately. When such bunched orders are executed in several installments during a day, transactions for each client will be reflected at an average of the aggregate price of such executions. When more orders are placed on a day than can be executed on that day without, in the judgment of Wafra or the executing broker, adversely affecting the market price of such securities, or where only a limited amount of securities is available (or can be sold) on a particular day, the executions will be allocated as nearly as practicable among all clients (including clients affiliated with Wafra) for whom such transactions are to be effected on that day in proportion to the total assets of such clients under management by Wafra.

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## ITEM XIII- Review of Accounts

### Investment Divisions

Designated professionals at Wafra review and evaluate accounts to ensure compliance with each client's investment objectives, policies and restrictions. Additionally, accounts are periodically reviewed for asset diversification, requirements and performance. These reviews are generally conducted, at a minimum, quarterly.

Certain clients have advisory agreements with guidelines restricting the amount and types of securities and other assets which may be purchased for their accounts. Unless a client contract includes such limitations on authority, Wafra has broad discretion to invest on the client's behalf within the authorized strategy and objective.

In addition to ongoing informal monitoring and reviewing of accounts:

- the Securities Division usually meets twice a week to review all accounts. These meetings include the Executive Vice President of this Division and the Division's Portfolio Managers and Analysts. In addition to market outlooks, securities selection, diversification, account status and performance are discussed.
- the Executive Vice President of the Alternative Investments Division meets with his investment team weekly to review accounts, discuss markets and the industry and review and discuss positions in the accounts.
- the Direct Equity, Real Estate and Private Asset Management Divisions have similar account review protocols with respect to their investments which are typically of a longer term in nature than the other Divisions. These Divisions typically meet weekly and or on an as needed basis to review new deal prospects, and to discuss current holdings to the extent there is recent or new news or factors requiring assessment.

### On Client Reporting

Wafra generates a number of different reports covering publicly traded securities status and activity, and reports on the performance of specific accounts. The client appraisal report is the status report that includes each holding with total cost, market value, unit cost, price, asset holdings percentages and current yield. Other status and activity reports include reports on gains and losses, transactions, interest, dividends and expenses, purchases and sales, cash ledger and asset allocation and performance. Reports are generally provided monthly or more frequently as requested by clients. Clients may also receive statements directly from their custodians.

For other Divisions, Wafra generates or causes to be generated for clients, reports as required by their respective agreements and as required by applicable regulations.

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## **ITEM XIV- Client Referrals and Other Compensation**

Wafra and its affiliates, pursuant to their arrangements with clients and with third-parties, may receive payments from third-parties which are sponsoring or structuring investments and in which Wafra may advise its clients to invest. Wafra and/or certain affiliates may from time to time pay finder fees to consultants which refer clients to Wafra or investment funds or products which Wafra may manage. These arrangements are in compliance with Rule 206 (4)-3 under the Investment Advisers Act of 1940. Item X(D) lists our current arrangements. Clients should refer to Item X for more information regarding our affiliated parties, such as broker-dealers and other service providers. WSC, an affiliated broker-dealer, and affiliates of Wafra, may at times engage Wafra to provide investment oversight and monitoring of, or investment advice on, investments placed by WSC or such affiliates to Wafra clients. Wafra receives compensation for these services.



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## ITEM XV- Custody

If Wafra or any of its related persons holds, directly or indirectly, client funds or securities, or has the authority to obtain possession of them in connection with advisory services provided by the advisor, Wafra is deemed to have "custody" of such funds or securities pursuant to Advisers Act Rule 206(4)-2. Generally, client assets must be maintained with a "qualified custodian" under the rule.

The determination of whether or not Wafra maintains custody with respect to any particular client is dependent on its agreement with such client, and location and control of a client's funds and securities. Wafra has custody of certain clients' funds and securities, and for others it is not deemed to have custody. We encourage clients which receive quarterly or more frequent account statements directly from their qualified custodians (generally custodial banks and/or their broker-dealers), to carefully review their statements. Furthermore, clients which receive statements from us should compare their account statements against statements received directly from their qualified custodian. Generally, all of Wafra's funds are audited annually by a public accounting firm; investors in a fund should carefully review the fund's annual audited financial statements.

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## **ITEM XVI- Investment Discretion**

Terms of a discretionary account are individually negotiated between Wafra and the client. These client contracts will generally set forth any limitations on the securities and assets that Wafra may be authorized to buy or sell, and as well as other investment limitations. Unless a client contract includes such limitations on authority, Wafra may invest client securities and cash with broad discretion to reach a client's objective using the agreed upon investment strategy. Terms with respect to Wafra fund clients are typically set out in the respective fund private placement or similar offering document.

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## ITEM XVII- Voting Client Securities

Wafra has adopted a proxy voting policy for those clients that have granted the firm the authority and the responsibility to vote proxies related to clients securities stating two basic duties with respect to proxy voting:

- (i) to review corporate actions and actually vote the relevant proxies, except in situations where Wafra will abstain from voting based on an actual or potential conflict of interest and;
- (ii) to vote all proxies in the best interest of the client.

In many cases, this means voting as the issuer's management recommends. In other instances, Wafra votes contrary to the recommendation of the issuer's management. The firm has developed criteria for determining how to vote on matters not governed by those criteria. Every client for which Wafra accepts authority for voting proxies is entitled to receive, upon request, a record on how the firm has voted proxies associated with the client's securities. A client may obtain that record by forwarding a written request via facsimile at (212) 813-9488 or to:

Attn: Chief Compliance Officer  
Wafra Investment Advisory Group, Inc.  
345 Park Avenue, 41<sup>st</sup> Floor  
New York, NY 10154-0101

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## **ITEM XVIII- Financial Information**

Wafra has discretionary authority and custody of client funds and securities. Wafra, however, is not aware of, or subject to, any financial condition relating to it that is reasonably likely to impair its ability to meet contractual commitments to clients.