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## **Form ADV Part 2A**

### **Los Angeles Capital Management and Equity Research, Inc.**

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March 27, 2015

This brochure provides information about the qualifications and business practices of Los Angeles Capital Management and Equity Research, Inc. ("Los Angeles Capital" or the "Firm"). Los Angeles Capital is a registered investment adviser with the United States Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Registration of an investment adviser does not imply any level of skill or training. If you have any questions about the contents of this brochure, please contact Jennifer Reynolds, Chief Compliance Officer at 310.479.9947 or by electronic mail at [compliance@lacapm.com](mailto:compliance@lacapm.com). Additional information about Los Angeles Capital is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This brochure dated March 27, 2015 is prepared in accordance with the SEC’s rules and requirements and includes material updates made since the date of our last annual brochure filing which was March 28, 2014.

The Firm has made the following material changes to the Brochure since our last annual update on March 28, 2014:

- Item 4 has been updated to reflect changes to the leadership team and Board of Directors, additional information about our products and our assets under management as of December 31, 2014.
- Items 4, 6 and 8 have been updated to reflect the current strategies under management and expanded descriptions thereof.
- Items 6 and 8 have been updated to reflect expanded risk disclosures.
- Items 11 and 12 have been updated to reflect changes to the Firm’s Code of Ethics and Trading Policy, respectively.

Currently, our brochure may be requested by contacting the Firm’s Chief Compliance Officer (“CCO”) at 310.479.9947 or via email at [compliance@lacapm.com](mailto:compliance@lacapm.com).

Additional information about Los Angeles Capital is also available via the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We may, at any time, update this brochure and send to clients a copy by electronic mail or in hard copy form. Clients should carefully review this brochure and address any questions to the Los Angeles Capital personnel identified on the cover page of this brochure.

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**This Brochure provides clients and prospective clients with information about Los Angeles Capital that should be considered before or at the time of obtaining advisory services from us. Please retain a copy of this brochure (and any updates) for your future reference.**

#### **Item 4 – Advisory Business**

**About the Firm** Los Angeles Capital Management and Equity Research, Inc. ("Los Angeles Capital" or the "Firm") is a discretionary institutional global asset manager registered with the SEC under the Investment Advisers Act of 1940 ("Advisers Act"). The Firm was founded in 2002 and its principal place of business is 11150 Santa Monica Blvd., Suite 200, Los Angeles, California 90025. The Firm offers risk controlled active equity management services to a broad range of institutional investors.

**Leadership and Ownership Structure** The Firm's leadership team and Board of Directors consists of Thomas D. Stevens, President and Chief Executive Officer, Hal Reynolds, Chief Investment Officer, Daniel Allen, Director of Global Equities and Stuart Matsuda, Director of Trading. Los Angeles Capital is organized as a California corporation that is 100% employee-owned. The Firm's principal owners are Thomas D. Stevens, Hal W. Reynolds and Stuart K. Matsuda. There are 25 additional employee shareholders.

**Services Offered** The Firm provides investment management advice across a range of equity investment strategies that are broadly categorized as US equities, Emerging Markets equities, Global equities, Developed Markets outside the U.S equities and long/short equities. Each of these strategies utilizes the Los Angeles Dynamic Alpha Stock Selection Model<sup>®</sup> that forecasts expected returns on a broad universe of equity securities across markets. The Firm also provides a Deep Value equity strategy that utilizes its Dynamic Alpha technology but with a longer-term forecast. Based on these forecasts, client portfolios are tailored to each client's unique objectives and investment guidelines.

The Firm's investment process utilizes quantitative methods that focus on identifying and incorporating investment signals into our proprietary investment selection process. Our approach involves creating and investing in diversified equity portfolios. Through a structured investment process, the Firm seeks to add value relative to the specific benchmark identified for each client account or on an absolute basis.

We do not currently incorporate specific environmental, social and corporate governance (ESG) information into our investment process unless specifically requested by a client. We may periodically evaluate various factors associated with ESG principles as well as third party research to identify risks or potential alpha associated with ESG based signals or incorporate ESG factors if requested by a client.

The Firm's investment process does not take into consideration a particular client's tax characteristics or attributes, including those that specifically apply to the account. We do not monitor global tax laws with respect to client accounts nor do we manage clients' tax reclaims. See also Item 8 regarding tax matters.

**Separately Managed Accounts and Pooled Investment Funds** Prospective clients may choose to (i) have a separately managed Account; (ii) invest through one of the Firm's pooled investment vehicles or (iii) have the Firm advise or sub-advise a Fund or Trust formed by the client (e.g., mutual fund, UCITS or CIT) (collectively referred to as "Accounts").

A separate Account is a client specific portfolio individually managed according to one of the Firm's strategies. Our separate Account clients include public pension funds, corporations and their pension plans, endowments/foundations and registered and unregistered pooled investment funds for which we serve as an adviser or sub-adviser. Separate Account arrangements typically grant the Firm discretionary authority to manage and invest the client's assets allocated to the Account, subject to the client's stated investment objectives and investment guidelines. Each separate Account is subject to the terms of an investment management agreement or other similar agreement between Los Angeles Capital and the client. Under these arrangements, clients may impose restrictions on investing in certain securities (or types of securities) or other limitations.

A pooled investment fund is a commingled fund of the assets of multiple institutional clients that is managed according to one of our offered investment strategies (a "Fund"). Each Fund is managed according to governing documents that may include a partnership agreement, articles of association, offering memorandum and/or prospectus. Third party service providers provide administrative back-office, accounting and recording keeping service, including trade settlement processing and custodial services. Periodic reports for the Funds are prepared for clients generally based on the records of the service providers. The Firm advises or sub-advises a number of pooled vehicles formed by clients (e.g., mutual funds, collective investment trusts, UCITS and other pooled vehicles) and has formed and currently manages the following Funds:

- LACM Emerging Markets Fund, L.P., a Delaware limited partnership with limited liability referred to in this brochure as the "EM Fund."
- LACM Global Equity Fund, L.P., a Delaware limited partnership with limited liability referred to in this brochure as the "Global Fund."

- LACM Large Cap Alpha Fund, L.P., a Delaware limited partnership with limited liability referred to in this brochure as the “Large Cap Alpha Fund.”
- LA Capital Global Funds Plc, an open-ended umbrella common contractual fund established as an undertaking for collective investment in transferable securities under the laws of Ireland pursuant to the European Communities Undertakings for Collective Investment in Transferable Securities (UCITS) Regulations, and established as an umbrella fund with segregated liability among its sub-funds.

**Assets under Management** As of December 31, 2014, Los Angeles Capital had approximately \$18.8 billion of client assets under management and all assets were managed on a discretionary basis.

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

Investment management fees charged by the Firm are generally computed as a percentage of the market value of the assets under management in the Account. In some cases, clients pay a lower base fee plus a performance based fees. The specific manner in which fees are charged by Los Angeles Capital is established in a client’s written Investment Management Agreement, Limited Partnership Agreement, or other legal documentation governing the Account.

Los Angeles Capital will generally bill its fees quarterly in arrears, based on the value of assets under management during the applicable quarter. Such fees can be calculated either (i) at the end of the applicable quarter or (ii) based on the monthly average value of assets under management during the applicable quarter. Some clients elect to have fees calculated and billed on a monthly basis.

Fees are generally prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a billing period will be charged a prorated fee. Accounts can be terminated at any time through written client instruction. There is no annual minimum base fee for investment advisory services. Los Angeles Capital has a standard fee schedule for each strategy and product. The standard fee arrangement may be negotiated with a particular client depending on a variety of factors including whether the client is a seed investor in a new strategy, the size of Account or

commitment, the particular strategy selected by the client and the client's special reporting and other requirements for managing the Account.

The fees paid by Los Angeles Capital's Separate Account clients are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are typically incurred by the client. Clients may incur certain charges imposed by custodians, fund administrators, transfer agents, brokers and other third parties such as fees charged for deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. If a strategy for the Account involves derivatives, the Account may be required to make payments under the derivatives to counterparties. Los Angeles Capital does not receive any portion of these commissions, fees, and costs.

The types of management fees paid by the Firm's Funds will typically be in the same nature as the fees for Separate Accounts. Investors in Funds will also be subject to certain additional fees which might include audit fees, legal fees, regulatory compliance fees, insurance and other fund administration fees, subscription and redemption fees, third party professional fees as well as private placement or other fees paid to local regulators.

The Firm's investment management agreements generally allow either party to terminate the applicable mandate upon prior written notice to the other. The required notice period for termination varies across agreements. If a client mandate terminates on a date other than the end of a period used to value the Account for purposes of calculating advisory or performance fees, such amounts will be prorated in accordance with the terms of the client's investment management agreement.

Item 12 below further describes the factors that Los Angeles Capital considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

#### **Important Notice in Connection with Funds**

This Brochure may be provided to a prospective client in a Fund together with the Fund's offering or private placement memorandum ("PPM"), organizational documents and other related documents ("Governing Documents"), in connection with a client's consideration of an investment in the Fund. While this Brochure may include information about the Fund, it does not represent a complete discussion of the features, risks or conflicts associated with the Fund.

More complete information about the Firm's private Funds is included in its PPM and other Governing Documents.

**In no event should this Brochure be considered an offer of interests in a private Fund or relied upon in determining whether to invest in a private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed only to provide information about Los Angeles Capital to comply with regulatory requirements under the Advisers Act, which may cause information in this Brochure to differ from the information provided in a PPM. If there is any conflict between the information in this Brochure and similar information in a Fund's PPM, you should rely on the information in the PPM.

#### **Compensation of Employee Marketing Personnel**

The Firm's employees who are engaged in marketing Funds are not paid sales commissions by the Funds for assisting in marketing such Funds to clients. If they were to be paid a commission, Los Angeles Capital would fully disclose that in the Fund documents provided to potential investors prior to investment. The Firm compensates marketing personnel from Firm revenues which practice presents a conflict of interest and gives employees engaged in marketing an incentive to recommend the Firm's products.

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

In some cases, in addition to management fees, Los Angeles Capital has entered into performance fee arrangements for some Accounts with qualified clients. Los Angeles Capital will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (the "Advisers Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

In measuring clients' assets for the calculation of performance-based fees, Los Angeles Capital typically includes realized and unrealized capital gains and losses. Los Angeles Capital's portfolio managers may manage Accounts that are charged a performance-based fee alongside those with standard asset-based fee schedules.

Performance-based fee arrangements may create an incentive for Los Angeles Capital to recommend investments which may be riskier or more speculative than those which would be recommended under an asset based fee arrangement. Such fee arrangements also create an



incentive to favor higher fee paying Accounts over other Accounts in the allocation of investment opportunities. Los Angeles Capital has designed and implemented procedures to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients including the following:

- Performance fees are not allocated to specific employees or groups of employees at the Firm.
- All of the Firm's strategies invest in highly liquid stocks with few exceptions.
- The Firm employs a quantitative approach across Accounts to identify securities and construct portfolios. The Firm's applications rely on a proprietary model called Los Angeles Capital's Dynamic Alpha Stock Selection Model® (the "Model") or, in the case of the Firm's Deep Value strategy, the Model's proprietary technology.
- Clients' fee schedules do not factor into the portfolio construction process which mitigates the risks otherwise associated with Accounts that provide performance fees.

The Firm's investment process incorporates various restrictions, benchmark preferences, investment objectives and/or investment guidelines as outlined in the investment management agreement. This may result in investment positions or actions taken for one client Account that differ from those taken in another client Account. Accordingly, one client Account may engage in short sales of or take a short position in an investment that at the same time is owned or being purchased long by another client Account. These positions and actions may adversely affect or benefit different clients at different times.

## **Item 7 – Types of Clients**

Los Angeles Capital provides portfolio management services to institutional clients including corporate pension and profit-sharing plans, Taft-Hartley plans, multi-employer plans, charitable organizations, foundations, endowments, public funds, registered investment companies, pooled investment vehicles, trust programs, foreign registered investment companies such as UCITS, and other U.S. and international institutions. While there is no minimum Account size for Separate Accounts, the Firm's Fund's have minimum initial investments identified on their respective private offering memorandum. These minimums are currently set at either \$5 or \$10 million.

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

Investing in securities involves the risk of loss that clients should be prepared to bear. An investment in any strategy by itself is not a balanced investment program for purposes of portfolio diversification. Investors should consult with their financial adviser regarding the appropriateness of an investment in any of the following strategies for their overall investment program.

Los Angeles Capital employs a quantitative approach to identify securities and construct portfolios. The Firm's applications rely on a portfolio construction process that incorporates a number of quantitative tools and models. The cornerstone of the portfolio construction process is the proprietary Los Angeles Capital Dynamic Alpha Stock Selection Model® (the "Model") and its related technologies. The Model includes fundamental data inputs for a universe of global equity securities. Through the use of sophisticated statistical tools, the Model estimates expected returns based on each securities risk characteristics and the expected return to each characteristic. The Model incorporates a variety of statistical techniques, some standard and some proprietary, which assist the investment team in evaluating the characteristics of equity securities and their expected payoffs. The proprietary Model technology is also used in connection with the Firm's Deep Value strategy that utilizes a longer term forecast.

Los Angeles Capital periodically considers enhancements to the Model. These enhancements may not provide the intended results, and may adversely affect performance. While Los Angeles Capital makes every reasonable effort to ensure that its process works as intended, there is no guarantee that any specific enhancement or revision to the Model will work as expected or that no further revision will be required.

Los Angeles Capital makes every reasonable possible effort to reduce the likelihood of material errors occurring during the implementation of the Model process. Regardless of the effectiveness of the Firm's risk mitigation efforts, it is not possible to completely eliminate the risk of error as it relates to the programming or coding of the systems that govern the portfolio management and trading functions which could adversely affect a client's portfolio.

**Quantitative Approach Risks** There are two types of risk involved with the quantitative management process, market risk and active management risk. Market risk refers to the risks associated with the volatility of equity securities and these risks, which are not diversified away, must be assumed by the investor in the strategy. Active management risk refers to the risk of

underperforming the client's benchmark. While the Firm seeks to control the level of active management risk consistent with each client's investment guidelines, there will be periods when the active management process generates negative returns. This may occur due to a shift in market sentiment where previously favorable characteristics become penalized due to estimation or other errors in the forecasting or risk management process.

Los Angeles Capital employs a rigorous risk management process and periodically communicates the levels of active management risk to its clients. While the Firm invests in securities that are for the most part liquid and may be easily traded, under adverse market conditions certain securities can, from time to time, become difficult to trade. The Firm employs a patient trading methodology which reduces the risk of adverse impacts which may come about with more aggressive or higher frequency trading approaches.

The portfolio construction process relies heavily on the use of proprietary and non-proprietary data, software and intellectual property that the Firm licenses from a variety of sources. The quality of the stock selections produced by the portfolio construction process depends on a number of factors including the accuracy of voluminous data inputs into the quantitative models used in the investment process, the mathematical and analytical underpinnings of the coding, the accuracy in translating those analytics into program code, the speed that market conditions change and the successful integration of the various quantitative models in the portfolio selection process.

Each component of the investment process has elements that present the possibility for human error. Because the financial markets are constantly evolving, most trading systems and models require enhancements. There is no guarantee that such enhancements to the various quantitative models will be implemented on a timely basis or that they will be successful. The use of a trading system or model that is not effective could at any time have a material adverse effect on the performance of an Account.

The successful deployment of the portfolio construction process could be severely compromised by unforeseeable software or hardware malfunction and other technological failures, power loss, software bugs, malicious code such as "worms", viruses or system crashers or various other events or circumstances within or beyond the control of Los Angeles Capital. Los Angeles Capital makes efforts to protect against such events but there is no guarantee that such efforts will be successful.

**Risks of Errors** The nature of complex quantitative investment management processes is such that errors may be extremely hard to detect and in some cases, an error can go undetected for a long period of time. In many cases it is not possible to fully quantify the impact of an error given the dynamic nature of the quantitative models and changing markets. While the Firm has a number of controls designed to assure that the portfolio construction process operates as intended, analytical errors, software errors, development errors and implementation errors as well as data errors are inherent risks.

The Firm views errors as falling into one of three primary categories, trade errors, data errors and investment process errors. Trade errors are unintentional actions in the placement, execution or settlement of a client's trade. For example, if a client restricts the purchase of a security and the Firm was to purchase that security for the client's Account, the Firm would treat the purchase as a "trade error." The Firm adheres to industry standards that clients should not suffer losses on account of trade errors.

Investment process errors are those errors that occur during the process of generating the trade list recommendations. Examples of investment process errors include analytical errors, software errors, program code errors, development errors, and implementation errors. The Firm does not consider an investment process error to a breach of duty when it acts in good faith in light of the handling of the resolution of such error. In some cases, the complexity involved and the indeterminate nature of an undertaking to correct an investment process error may cause Los Angeles Capital to, in good faith and in accordance with its obligations, decide not to correct an error if doing so would be imprudent or otherwise not in the best interests of client considerations or if the cost of the fix greatly outweighs the benefit. In addition, Los Angeles Capital may, in its discretion, determine not to disclose investment process errors not otherwise determined to be compensable or constituting material information to affected clients.

Los Angeles Capital receives volumes of data from vendors, some of whom aggregate data from a variety of third party sources. Those data sources and the analytics generated by such data are continuously being updated and corrected. Despite Los Angeles Capital's efforts to diligently monitor and correct data, it is always possible and often likely that there is some amount of data that is not perfectly correct, thus resulting in a data error.

The Research department seeks to identify the most appropriate tools that will facilitate the analysis process but does so in a way that is also mindful of the risks with each tool. The Firm is aware of the risks of putting too great an emphasis on any one particular aspect of the process

and, as a result, attempts to measure and control the risks associated with each of these techniques. The majority of tools utilized by the Firm would be considered standard methodologies embraced by other practitioners in the industry.

**Investment Strategies** While most Accounts have unique investment guidelines and a number of Accounts have a custom strategy, most of the Accounts generally fall within one of the following equity strategies:

- U.S. All Cap: An equity strategy which seeks to outperform benchmarks such as the Russell 3000 and the Wilshire 5000;
- U.S. Large Cap: An equity strategy which seeks to outperform benchmarks such as the S&P 500, Russell 1000, MSCI US and FTSE US;
- U.S. Mid Cap: An equity strategy which seeks to outperform benchmarks such as the S&P Mid Cap;
- U.S. Small Cap: An equity strategy which seeks to outperform benchmarks such as Russell 2000, and MSCI US Small Cap;
- Emerging Markets: A core emerging markets equity strategy which seeks to outperform benchmarks such as the MSCI Emerging Markets Index;
- EAFE, Global Equity: An equity strategy which seeks to outperform benchmarks such as the MSCI EAFE and MSCI World;
- Global Equity Managed Volatility: An equity strategy which seeks to outperform benchmarks such as the MSCI ACWI Minimum Volatility;
- Long/Short Active Extension (130/30): An equity strategy which seeks to outperform benchmarks such as the S&P 500,
- Long/Short Absolute Return: An equity strategy which seeks to outperform benchmarks such as the S&P 1500 Composite Index and T-Bills; and
- U.S. Deep Value: An equity strategy which seeks an absolute return using candidate lists from the S&P 1500 Value and the Russell 3000 Value.

Accounts are typically managed with a specific benchmark along with return/risk parameters. Investments in securities that are subject to market forces, risk the permanent loss of capital as

a result of adverse market developments, which developments can be unpredictable. To the extent that a portfolio is concentrated in any one particular strategy, the risk of any incorrect investment decision is increased.

The Firm may add strategies, undertake custom strategies, remove strategies or modify any of the strategies it employs and this includes any of the strategies discussed above. There can be no assurances that the objectives associated with a strategy will be met.

**Strategy Risks** The principal risks of investing in the Firm's equity strategies are as follows:

- **Equity Risks:** the risk that stocks and other equity securities generally fluctuate in value more than bonds and may decline in value over short or extended periods based on changes in a company's financial condition, overall market economic and political conditions, recessions and fears of recession, perceptions regarding the industries in which an Account is invested or factors and events related to specific companies in which an Account is invested. These conditions may affect developed countries as well as emerging markets.
- **Turnover:** the risks associated with market movements and portfolio turnover with associated higher brokerage costs and the potential for higher current realization of capital gains.
- **Counterparty Risks:** the risk of settlement default by any counterparty and the exposure to credit risk of parties with whom the Account trades.
- **Price Volatility Risk:** the risk that the value of the investment portfolio will change as the prices of its investments goes up or down.
- **Derivatives Risks:** for those strategies that are permitted to invest in derivatives (including options, forward contracts and swap contracts), the risks of increased illiquidity and leverage that can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss.
- **Liquidity Risks:** the risk that there may be fewer willing buyers of the portfolio securities and that the Firm may have to sell those securities at a lower price or may not be able to sell the securities at all, each of which would have a negative effect on performance.
- **Market Risks:** the risk that returns from the securities will decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets.
- **Portfolio Management Risks:** the risk that an investment strategy may fail to produce the intended results.

- **Issuer Risks:** the risk that the value of a security may decline for reasons directly related to the issuer such as management performance, earnings, financial leverage, reductions in asset values, and reduced demand for the issuer's goods or services.
- **Investment Style Risks:** the risk that the particular style or set of styles that the Firm primarily uses may be out of favor or may not produce the best results over short or longer time periods and may increase the volatility of the value of the investment portfolio.
- **Globalization Risks:** the risk that the growing interrelationship of all global economies and financial markets has increased the effect of conditions in one country or region on issuers of securities in a different country or region.
- **Non-Diversification Risks:** the risks that the portfolio may be subject to wider fluctuations in value than if it were subject to broader diversification requirements.
- **Broker-Dealer Risks:** the risks associated with those assets held in a prime broker account that the brokerage firm ceases to operate and is not covered by adequate insurance.
- **Limits on GP Obligations:** the risk applicable to commingled Funds that the Firm, as General Partner, is only required to devote such time as the General Partner deems appropriate and the risks that limited partners are dependent on the judgment and skill of the General Partner in setting the level of commitment.
- **Indemnification Limits:** risks that limited partners in commingled Funds advised by the Firm may have more limited rights of action given the indemnification limits in Fund governing agreements.
- **Investments in ETFs:** risks associated with additional fees and expenses associated with ETFs and the risks that in less efficient markets, it may be difficult to match an ETF seller with a buyer.
- **General Partner Conflicts:** risks associated with the Firm serving as General Partner and investment adviser trading on behalf of various Accounts with similar objectives with the potential for conflicts in determining how to allocate trading opportunities.
- **Geographic Concentration Risks:** risks that investments could be concentrated in companies located in similar regions with similar reactions to political, social, and economic developments with the potential for being adversely affected by legislative changes affecting the values of companies in such regions.
- **Sector Risks:** risks that a significant amount of a portfolio could be invested in certain sectors which may be subject to specific risks such as governmental monetary and fiscal policies that could negatively affect a particular sector.

- **ERISA Restrictions Risks:** If one of the open-ended private funds managed by Los Angeles Capital is deemed to hold “plan assets” for purposes of ERISA, such fund will be restricted from investing in any securities which are issued by any employer corporation which is a sponsor of a qualified plan, which is itself an investor and will be subject to other restrictions which it otherwise would not be were it not holding “plan assets.”
- **Political and Economic Risks:** risks associated with changes in economic and tax policies, government instability, wars or other geopolitical or economic actions or factors.
- **Short Sale Risks:** for those strategies that permit short sales, the unlimited risk of an increase in the market price of securities sold short. In addition, global regulatory prohibitions on short sales may impair the Firm’s ability to implement its investment process. Bans may add additional constraints to a strategy, which may increase transaction costs as well as the time required to monitor compliance with the restrictions.
- **Investments in China:** for those strategies that permit investments in China, dealing in Chinese securities are restricted to licensed investors which presents increased liquidity risks and potential limits on the ability of the investor to repatriate invested capital.
- **Leverage Risks:** for portfolios with a long/short, market neutral or a limited shorting strategy, the portfolio’s strategy is inherently leveraged and the portfolio will be exposed to the risk of investment leverage. Because the use of leverage effectively compounds investment exposure, it can improve the return on invested capital if the leveraged investments increase in value.
- **Performance Fee Risk:** for those Accounts that pay performance fees based on unrealized gains, risks that fees paid on an unrealized gain may never be realized. Performance fees may provide incentives for making riskier investments.
- **Investments in Small and Mid-Sized Companies:** for those strategies that invest in small and mid-sized companies, there are risks associated with less predictable earnings, limited product lines, limited markets, limited distribution channels and financial resources with management of such companies bring limited to few key personnel. The market movements of these companies may be more abrupt and volatile than those related to larger, more established companies or the stock market in general and small-sized companies, in particular, are generally less liquid than the equity securities of larger companies.
- **Foreign Securities Risks:** for those strategies investing in foreign securities, including depositary receipts, there are risks that are not associated with investing in U.S.



securities that can adversely affect a portfolio performance. Foreign markets, particularly emerging markets and to a greater extent small or mid cap emerging markets, may be less liquid, more volatile and subject to less government supervision than U.S. markets. The value of a portfolio's investment may be negatively affected by currency exchange rate fluctuations. There may be difficulties enforcing contractual obligations, and it may take more time for trades to clear and settle. There may be higher brokerage commissions and custody fees and in some foreign markets there may not be strong protections against failure by other parties to complete transactions.

- **Regulatory Risks:** for those strategies investing in non-U.S. companies, risks that there may be less government supervision and regulation of foreign securities markets with foreign companies being subject to less stringent and less uniform accounting, auditing and financial reporting standards and disclosure requirements and reduced and less reliable publicly available information about foreign markets and issuers.
- **Emerging Markets Risks:** for emerging markets portfolios or strategies that have a portion invested in emerging markets there are a number of risks associated with investing in foreign securities including:
  - The small size of markets for such securities and the low or non-existent volume of trading that potentially results in a lack of liquidity and greater price volatility—this risk may be greater with respect to small cap emerging markets companies;
  - Less political, social and economic stability;
  - The existence of certain national policies which may restrict investment opportunities including restrictions on investment in issuers or industries deemed sensitive to national interests;
  - Risks associated with foreign taxes, nationalization, expropriation (without adequate compensation) and restrictive currency controls;
  - The absence of developed legal structures governing foreign investments or allowing for judicial process to address injury to private property;
  - Risks that accounting, financial reporting and audit standards may not exist or be lacking and that there may be less information available;
  - Risks associated with settlement and clearance procedures that differ from those in the U.S. markets such as differences in the timing of or delays in the payment for or delivery of securities that are not typically associated with U.S. investments;

- Risks associated with higher brokerage, custody and tax costs as compared to those of the U.S. markets;
- The absence of a long term capital markets structure or market-oriented economy and the possibility that recent favorable economic developments in some emerging countries may be slowed or reversed by unanticipated political or social events in such countries. In addition, many emerging countries have experienced substantial and, in some periods extremely high rates of inflation which may have negative effects on the economies and securities markets in certain countries.
- **Pooled Funds:** for those clients investing in pooled vehicles, there is the risk of expenses that vary depending on the size of the other investors in the vehicle as well as the risk of substantial redemptions requiring the liquidation of positions at an inappropriate time or on unfavorable terms. Investors in pooled funds should carefully read the risk section of the offering memorandum or private placement memorandum that is tailored to the terms of such fund.
- **Frontier Markets Risks:** for those strategies permitted to invest in frontier markets, the risks described above for emerging markets exist but with the enhanced risks associated with smaller economies and less developed capital markets than traditional emerging markets. Frontier markets have low trading volumes with the potential for extreme price volatility and illiquidity with Governments exercising substantial influence over many aspects of the private sector. The economies of frontier countries may depend on the value of commodities produced by those countries and markets for commodities can be volatile and may be more susceptible to adverse effects of trade barriers, exchange controls and other protectionist measures imposed by the countries with which they trade.
- **Currency Risk:** for those strategies investing in non-U.S. companies, risks that there may be unfavorable fluctuations in currency exchange rates, restrictions on exchange and other currency risks. Adverse changes in currency exchange rates relative to the U.S. Dollar may erode or reverse any potential gains from a portfolio's (or a portion of a portfolio's) investment in securities denominated in foreign currency or may widen existing losses. Depending on the particular mandate, the Firm may engage in currency transactions either on a spot (i.e., cash) basis at the rate prevailing in the currency exchange market, or by entering into forward foreign currency exchange contracts to purchase or sell currencies as agent for the Firm's client. In entering into a forward foreign currency exchange contract, our client is dependent upon the creditworthiness

and good faith of the counterparty. Spot and forward contracts involve the risk that anticipated currency movements will not be accurately predicted which may result in unlimited losses to our client. Using forward foreign currency exchange contracts does not eliminate fluctuations in the underlying prices of the securities. Forward foreign currency exchange contracts simply establish a rate of exchange that can be achieved at some point in the future.

- **Foreign Investment Restrictions:** for those strategies investing in non-U.S. companies, risks that foreign countries may limit the amount of investments by foreign persons or limit investments to certain classes of securities.
- **Foreign Taxation Risk:** for those strategies investing in non-U.S. companies, risks that different tax regimes in foreign jurisdictions may subject investors to withholding or other taxation that would not be imposed in other markets.
- **Futures Contracts Risks:** for those strategies investing in futures, there are a number of risks including:
  - Volatility risk due to the potentially high degree of leverage with the result that a relatively small price movement may result in substantial losses and, like other leveraged investments, a purchase or sale of a futures contract may result in losses in excess of the amount invested.
  - Margin requirements that vary based on the perceived volatility of each type of contract. Margin requirements with respect to transactions that are not bona fide hedging are significantly higher than margin requirements for bona fide hedging transactions.
  - Futures are subject to daily pricing fluctuation limits by regulations set by futures exchanges and trading facilities. During a single trading day, no trades may be executed at prices beyond the daily limit. Futures prices may move to the daily limit for several consecutive days with little or no trading and such occurrences could prevent the prompt liquidation of unfavorable positions and subject a portfolio to substantial losses.
  - Risks that the Firm could hit speculative position limits on the maximum net long or net short position that any one person may hold or control in particular commodities. A modification or liquidation, if required, could adversely affect the profitability of a portfolio. Further, to avoid exceeding the position limits, the Firm might have to forego or modify certain of its contemplated trades.
- **Counter Directional Risks:** Los Angeles Capital may take a long position in securities of an issuer in the portfolio of a Fund managed by the Firm while at the same time going

short on the same issuer in another Account managed by the Firm. Conversely, Los Angeles Capital could have a short position in a portfolio while at the same time going long on the same issuer in another Account or Fund. These situations occur due to differences in the risk and guideline constraints and exposures governing the Fund's portfolio in comparison to the other Accounts managed by the Firm. Los Angeles Capital has procedures in place that are designed to minimize conflicts of interest in these situations.

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

Los Angeles Capital has not been the subject of any legal or disciplinary action and thus has no information to report applicable to this Item.

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

Los Angeles Capital acts as both the general partner and the investment adviser to the following privately offered limited partnerships.

The LACM Large Cap Alpha Fund L.P. (the "LCAF Partnership") was organized to invest primarily in long and short positions of large capitalization equity securities and futures and derivative contracts in the U.S. markets. The LCAF Partnership employs a long/short equity investment strategy by maintaining both long and short positions of large cap equity securities so that the net equity exposure, long allocation less short allocation, is maintained at approximately 100%. The LCAF Partnership is privately offered in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder.

The LACM Emerging Markets Fund L.P. (the "EMF Partnership") was organized to invest primarily in long positions of equity securities listed in the MSCI Emerging Markets Index and futures and derivatives contracts related thereto. The EMF Partnership employs a long equity investment strategy. The EMF Partnership is privately offered in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder.

The LACM Global Equity Fund L.P. (the "GEF Partnership") was organized to invest primarily in long positions of equity securities in the developed and emerging markets of the MSCI All

Country World Index (“MSCI ACWI Index”) and futures and derivatives contracts related thereto. The GEF Partnership employs a long equity investment strategy. The GEF Partnership is privately offered in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder.

Los Angeles Capital has engaged Grant Thornton LLP to audit the financials of its privately offered limited partnerships as well as those of the Firm.

In addition, Los Angeles Capital acts as the promoter and investment adviser to the Los Angeles Capital Emerging Markets Fund (the “UCITS Fund”), a UCITS fund registered with the Central Bank of Ireland. The UCITS Fund seeks to provide capital appreciation by investing in a diversified portfolio of equity securities which are listed, traded, or dealt-in on regulated markets in emerging market countries. The UCITS Fund is privately offered in reliance upon the exemption from registration provided by Regulation S of the Securities Act of 1933, as amended.

Los Angeles Capital has engaged Grant Thornton LLP to audit the financials of the UCITS fund and utilizes the outside counsel of Arthur Cox.

This Brochure may be provided to a prospective investor (“Investor”) in one of our Private Funds, together with the Private Fund’s private placement memorandum (“PPM”), governing documents and other related documents (“Governing Documents”), in connection with Investor’s consideration of an investment in the Fund. While this Brochure may include information about the Private Fund, it does not represent a complete discussion of the features, risks or conflicts associated with the Fund. More complete information about each of our Private Funds is included in its PPM and other Governing Documents.

**In no event should this Brochure be considered an offer of interests in a Private Fund or relied upon in determining to invest in a Private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed only to provide information about the Firm to comply with regulatory requirements under the Advisers Act, which may cause information in this Brochure to differ from the information provided in a PPM. If there is any conflict between the information in this Brochure and similar information in the Private Fund’s PPM, you should rely on the information in the PPM.

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

Los Angeles Capital anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will buy, sell, or hold securities in client Accounts that are directly or indirectly held by Los Angeles Capital and/or its employees. As a result, Los Angeles Capital's employees and their family members, including any relative by blood, marriage, or domestic partnership living in the employee's household are required to follow Los Angeles Capital's Code of Ethics.

**General Principles** As a fiduciary, Los Angeles Capital has adopted a Firm-wide Code of Ethics that establishes general principles that each employee must abide by. Each employee has an obligation to uphold, at a minimum, the following duties:

- the duty to place the interests of the client before the Firm at all times;
- the duty to act in a professional and ethical manner at all times;
- the duty to act with skill, competence, and diligence;
- the duty to communicate with clients in a timely and accurate manner;
- the requirement that all personal securities transactions be conducted in such a manner as to be consistent with the Firm's Code of Ethics and to avoid any actual or potential conflict of interest or any abuse of an employee's position of trust and responsibility;
- the principle that investment adviser personnel should not take inappropriate advantage of their position;
- the duty to keep information concerning the identity of security holdings and the financial circumstances of a client confidential;
- decisions affecting clients are to be made with the goal of providing equitable and fair treatment among clients;
- the duty to keep communicate with clients or prospective clients candid and fulsome, true and complete, and not misleading or misrepresentative;
- the principle that independence and objectivity in the investment decision making process is paramount; and
- the duty to report any violations of the code to the Chief Compliance Officer.

In addition, each employee must comply with applicable Federal Securities laws and Firm policies, and as an adviser the Firm and its employees are prohibited from the following:

- employing a device, scheme or artifice that would defraud an Investment Advisory client;

- making an untrue statement of a material fact to a client, or omitting a material fact that would be necessary in order to make the statements not misleading;
- engaging in any act, practice or course of business which operates or would operate as a fraud or a deceit upon a client;
- engaging in any manipulative practice with respect to a client;
- engaging in any manipulative practice with respect to securities, including price manipulation, acting on or spreading false rumors; or
- making use of any information that an employee may have become aware of by virtue of his/her relationship with a client organization.

Employees may not conduct a transaction while aware of such “inside information” if the information is indeed non-public in nature and comes about through dialogue and/or interaction with an official at a company.

**Restrictions on Personal Trading** Subject to the above, employees of Los Angeles Capital and their immediate family members sharing a household may trade for their own Accounts in securities which are recommended to and/or purchased for Los Angeles Capital’s clients. The Code of Ethics is designed to avoid actual and potential conflicts of interest and assure that the personal securities transactions, activities, and interests of the employees and their family members will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own Accounts.

Under the Code of Ethics, certain classes of securities have been designated as restricted or exempt transactions, based upon a determination of materiality and potential interference with the best interest of Los Angeles Capital’s clients. In addition, the Code of Ethics requires pre-clearance authorization from both the Trading and Compliance departments for certain transactions. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and is designed to reasonably prevent conflicts of interest between Los Angeles Capital and its clients.

**Restrictions on Gifts and Entertainment** Los Angeles Capital has a policy governing gifts, favors and entertainment that includes approval processes for gifts and entertainment provided to or given by Los Angeles Capital employees.

**Insider Trading Rules** Los Angeles Capital also has a policy statement on insider trading that provides generally that its employees may not buy or sell a security for themselves or others while in possession of material non-public information about the issuer, or communicate such material non-public information to others who have no official need to know. The policy statement provides guidance on what is material non-public information and procedures for avoiding insider trading and in aiding in the prevention, detection, and imposition of sanctions against insider trading.

On an annual basis, all employees receive Code of Ethics training and must provide written acknowledgement of receipt and intention to comply. Material changes to the Code of Ethics are distributed, as amended, to all employees.

A complete copy of Los Angeles Capital's Code of Ethics is available to clients or prospective clients upon request by contacting the Firm's CCO at 310.479.9947 or via email at [compliance@lacapm.com](mailto:compliance@lacapm.com).

Los Angeles Capital acts as both the general partner and the investment adviser to the LCAF Partnership, the EMF Partnership and the GEF Partnership. As such, Los Angeles Capital has up to a 1% general partner interest in each Partnership. Los Angeles Capital earns management and performance fees directly from each Partnership. Therefore, Los Angeles Capital may recommend to clients investment products in which Los Angeles Capital has some financial interest, and during the course of trading may buy or sell for itself securities it also recommends to clients. Los Angeles Capital recommends an investment in the Partnerships only when consistent with its fiduciary duty.

Los Angeles Capital acts as both the promoter and the investment adviser to the following Irish registered UCITS fund: Los Angeles Capital Emerging Markets Fund. In that capacity, Los Angeles Capital earns management and performance fees directly from the Fund. Los Angeles Capital recommends an investment in the Fund only when consistent with its fiduciary duty.

In the event that the trades in a client managed Account coincides or overlaps with a proprietary Los Angeles Capital Account, or a pooled Account with proprietary assets in excess of 2%, it is the Firm's policy to trade the client managed Account(s) first and the Account(s) with proprietary interests last. If feasible, and if the impact upon liquidity and market impact is



determined to be inconsequential, Los Angeles Capital may trade client managed Accounts in conjunction with Accounts with proprietary interests. In the event that similar names are aggregated, the block trades would receive the same execution price per share and would be subject to the Firm's aggregated transaction procedures.

In addition, the LACM Large Cap Alpha Fund L.P., the LACM Emerging Markets Fund L.P., and the LACM Global Equity Fund L.P. are audited annually by a PCAOB-registered and -inspected accountant and limited partners receive audited financial statements within 120 days of fiscal year end.

Los Angeles Capital prohibits arranging an off-exchange cross trade between two of its discretionary client Accounts. The Firm may, however, submit client Account orders to one of the anonymous institutional electronic matching protocols to reduce market impact. Los Angeles Capital will also not conduct any principal transactions for client Accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client Account. Los Angeles Capital is not registered as a broker-dealer, nor does it have an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

### **Broker Selection**

Los Angeles Capital does not have an affiliated broker and seeks to achieve best execution when selecting broker-dealers on behalf of client Accounts through its approved brokerage relationships. These orders may be executed through electronic communication networks, alternative trading systems, or other similar execution systems which are governed by the SEC. These transactions meet the requirements of ERISA Section 408(b) (16).

In selecting brokers and negotiating commissions for trade execution, Los Angeles Capital's general guiding principle is to obtain the best execution at the most favorable price. However, in accordance with SEC recommendations and the CFA Institute Soft Dollar Standards, Los Angeles Capital will consider the following factors in evaluating a broker's capability to provide best execution: the broker's financial condition, the broker's responsiveness to the investment adviser, the commission rate or spread involved, and the range of services offered by the

broker. Additionally, Los Angeles Capital recommends that its traders consider the following factors which may be relevant in selecting a broker for a specific transaction:

- quality of overall execution services provided by the broker-dealer;
- promptness and accuracy of electronic execution reports;
- ability and willingness to promptly resolve and correct errors;
- ability to commit capital to facilitate principal transactions;
- specific expertise the broker-dealer may have in executing trades for the particular type of security or basket of securities;
- technology infrastructure and quality of electronic or algorithmic trading strategies;
- participation in client commission recapture programs; and
- willingness to accrue and pay for approved and qualifying soft dollar products.

These criteria are relevant components of the broker's ability to obtain the most favorable total cost under the particular circumstances at any given time.

Los Angeles Capital actively trades foreign currencies to facilitate settlement of foreign equity trades when feasible and adheres to the SEC definition of best execution. The majority of foreign currency transactions is traded for spot or short settlement and is executed to facilitate trade settlement in multi-currency portfolios where foreign currency trading is not restricted. For countries with restricted currencies, standing instructions are in place at the custodian to execute foreign currency transactions according to local market policies. In order to eliminate complications and/or market sanctions resulting from potential failing trades, the Firm directs all foreign currency trades in restricted securities in accordance with the best execution practices of the custodian bank.

When trading with counterparties other than the client's custodian bank, Los Angeles Capital negotiates an International Foreign Exchange and Currency Option Master Agreement (IFXCO) or other similar contractual agreements with the counterparty and performs checks and oversight in-line with procedures adopted to oversee and monitor counterparties used for equity trading. While it is ultimately the client's decision, Los Angeles Capital encourages the use of Continuous Linked Settlement<sup>1</sup> ("CLS") to ensure simultaneous wires and minimize settlement risk. Additionally, the Firm uses a multi-dealer foreign currency trading platform used to generate competitive quotes from all the FX brokers on the Firm's roster.

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<sup>1</sup> CLS mitigates settlement risk through the provision of its unique payment versus payment settlement service which has direct links to the real time gross settlement (RTGS) systems of the currencies it settles. In addition to mitigating settlement risk, CLS also streamlines and standardizes FX operations thereby reducing costs.

Strategies that engage in short trading typically utilize the services of a Prime Broker for some or all of the following functions:

- Arranging for the receipt and delivery of securities bought, sold, borrowed, and lent;
- Arranging payment for security purchases and sales;
- Maintaining custody of cash and securities;
- Providing leverage financing; and
- Tendering securities in connection with Los Angeles Capital's directive on tender offers, exchange offers, mergers, and other corporate reorganizations.

For those account where the Firm is responsible for selecting the Prime Broker, the Firm performs various assessments including the following:

- Financial strength and credit quality
- Product offerings that minimize counterparty risk
- Fee structure
- Flexibility in reporting and service capabilities
- Quality of stock loan pool
- Technological capabilities
- Global capacity and reach
- Trading capabilities
- Knowledgeable and responsive support staff, and
- Corporate structure

Los Angeles Capital meets periodically to review its brokerage relationships including allocations, commission levels, and soft and directed brokerage. During this review, adjustments to the brokerage commission budget will be made with the approval of the Director of Trading, and approved brokerage firms may be added or removed. This approved brokerage list is subject to change as growth in assets under management necessitates, as growth in geographical trading expertise and experience requires, as technological opportunities evolve and as personnel turnover warrants.

Clients will be notified of changes to the approved brokerage roster on an annual basis. The explicit commission levels paid for trade execution services are established annually by the Trading department and the Firm targets no more than 25% of aggregate commission dollars to any one approved brokerage firm.

**Research and Soft Dollars**

Los Angeles Capital's soft dollar arrangements comply with the CFA Institute Soft Dollar Standards and satisfy the safe harbor provisions under Section 28(e) of the Securities and Exchange Act of 1934. At any point in time, Los Angeles Capital may have a soft dollar arrangement with one or more brokerage Firms to purchase broker and/or third-party research and other products and services, whereby Los Angeles Capital will direct client brokerage commissions to participating, non-affiliated broker-dealers to accrue soft dollar credits. Los Angeles Capital will accrue soft dollar credit on trades for client portfolios unless specifically prohibited by the client in writing. A potential conflict of interest exists in these soft dollar arrangements because Los Angeles Capital may have an incentive to trade client Accounts in order to pay for research products and/or services rather than to ensure that client portfolios receive the most favorable execution. However, Los Angeles Capital believes that by using allowable client brokerage commissions to obtain research or other qualifying products or services, the Firm benefits by forgoing the need to develop, produce, expend resources, or pay for the research product or service itself. The Firm believes that these cost savings accrue to the collective benefit of its clients.

As Los Angeles Capital receives soft dollar benefits, clients may "pay up"; that is, they may pay a higher commission than would otherwise be available with other broker-dealers. Additionally, since the volume and frequency of trading activity for client Accounts is not uniform, the amount of commissions in excess of the lowest rate available paid by each Account for brokerage and research services may vary. Furthermore, Los Angeles Capital may use broker or third-party research products or services to benefit clients other than those whose trades generated the soft dollar commissions. Los Angeles Capital believes, however, that these soft dollar arrangements result in a collective benefit to all of its clients. Los Angeles Capital may engage in agency transactions in over-the-counter equity securities in exchange for soft dollar credits. In these situations, the client may pay an agency commission in addition to the markup or markdown assessed by the market maker.

Los Angeles Capital accrues soft dollar credits with participating brokerage Firms on its approved brokerage roster and pays the same total agency commission rate with each broker executing in a particular market (e.g., U.S./Canada, Developed Global, and Emerging) regardless of whether soft dollars are being accrued. This removes the need or incentive to direct client transactions to any particular broker-dealer to pay for a particular soft dollar product or service.

For those client Accounts that allow participation, the soft dollar accrual percentage is the same regardless of the particular broker-dealer used. On occasion, the firm may execute trades at a discounted commission rate due to a very low execution trade price (generally less than \$1.00), where the executing broker is prevented from charging a commission rate that exceeds specific commission/trade price ratios. These particular trades may or may not receive soft dollar accruals

In deciding whether to purchase research and brokerage products or services under Section 28(e), Los Angeles Capital will first determine if the product qualifies as eligible research or brokerage; determine if it provides lawful and appropriate assistance in the performance of the Firm's investment decision making responsibilities; and lastly, determine in good faith, that the amount of the client commissions paid is reasonable in relation to the value of the products or services provided by the broker-dealer. If a product or service qualifies as "mixed-use" and provides both eligible research or brokerage services and ineligible research or broker services,, Los Angeles Capital will make a reasonable allocation of such costs between eligible products and services which may be paid for with commission dollars and ineligible related products and services which must be paid for using Los Angeles Capital's own funds.

Los Angeles Capital may benefit from both proprietary and third-party research. In general, these qualifying products and services will include investment research data, portfolio management and analytics, and trading decision support and research. An historical breakdown of these "allowable" research and/or brokerage products or services is approximately: Investment Research Data (63%), Portfolio Management and Analytics (22%) and Trading Decision Support and Research (15%). Investment Research Data may include company-specific financial statement history, financial analyst sentiment, and market data received in electronic form. Portfolio Management and Analytics may include portfolio optimization and risk minimization tools. Trading Decision Support and Research may include market analysis and data, pre- and post-trade analytics, and allowable order management system modules. This breakdown is based upon historical soft dollar arrangements and may or may not be indicative of future soft dollar purchases. These arrangements may change or vary over time.

Additional information in accordance with the CFA Institute Soft Dollar Standards regarding Los Angeles Capital's trading and soft dollar policy is available upon request.

**Directed Brokerage**

Los Angeles Capital has full discretion and authority to determine the securities to be bought or sold for clients, the amount of such securities (subject to client-established guidelines), and the brokerage firms and commissions to be used for trade execution, unless the client's Investment Management Agreement states otherwise. A client may direct commissions to a particular broker in exchange for services received by the client by providing Los Angeles Capital with written instructions.

Los Angeles Capital will comply with the required and recommended directed brokerage procedures set forth in the CFA Institute Soft Dollar Standards and will not use commissions from another client Account to pay for a product or service purchased under a client "directed" brokerage arrangement. While Los Angeles Capital has a duty to seek to obtain best execution, directed brokerage arrangements that require the investment adviser to commit a certain percentage of brokerage may affect Los Angeles Capital's ability to seek to obtain best execution. Directed brokerage arrangements may cost clients more money.

**Transaction Allocations**

Los Angeles Capital has developed a proprietary program trading strategy tailored to its approach to stock selection. This strategy coincides with the dynamic nature of Los Angeles Capital's Dynamic Alpha Stock Selection Model<sup>®</sup> by incorporating live market prices into the trade decision-making process. Additionally, control over the entire trade process, from order submission through trade execution, is facilitated along with an enhanced ability to monitor intraday brokerage execution.

Combining proprietary software development and live market prices, the Firm developed a risk-controlled algorithm that creates highly liquid program trades or "waves." Once a program or "wave" is identified for trading, orders are electronically communicated via FIX<sup>®</sup> (Financial Information eXchange) protocol for rapid execution by the Firm's approved brokerage relationships. This dynamic trading strategy enhances the Firm's trading process in several ways. First, program orders are opportunistically sent to the market when "waves" can be traded at a favorable price. Second, only a portion of the total program order is ever exposed to the market with the remainder hidden until favorable execution can be achieved. Finally, trading is efficiently spread throughout the month thereby significantly reducing market impact costs.

As this Wave Optimization trading algorithm is dependent upon robust and consistent market data, the Firm does not currently utilize this trading strategy in Developed Asia and the Emerging Markets. For these markets, Los Angeles Capital currently trades on a best efforts basis with approved brokerage firms. Depending on market conditions, liquidity considerations and client activity, various trading strategies are employed and executions are monitored and modified in real time.

Although multiple client Accounts may have the same or similar benchmark, most have different strategies, objectives, restrictions, constraints, and inception dates. As opposed to aggregating client Account trade orders at every opportunity, Los Angeles Capital believes that client Accounts benefit from the Wave Optimization trading strategy that was developed specifically to reduce trading costs.

While each client Account is managed individually, Los Angeles Capital may, at any given time, purchase and/or sell the same securities for many Accounts. When appropriate, Los Angeles Capital may aggregate the same transactions in the same securities. Clients in an aggregated transaction will receive the same execution price per share, which will reflect an average of prices if the order is executed in multiple trades, and will be charged a pro-rata share of the total commission charge. In the following situations, transactions may not be aggregated with other orders entered at the same time in the same security, with the result that commission rates and execution prices for such Account(s) may differ from those obtained on the aggregated transactions:

- A client has directed that a specific broker be used to execute transactions;
- A client designates a specific order strategy (e.g., market-on-close, market-on-open, VWAP, TWAP, etc.);
- The Account is a fund with daily cash flows that are communicated later in the trading day which prevents its trades from being included;
- A new trade list for an Account is created later in the day which then prevents that Account's trades from being included;
- A global Account traded overnight includes names that are subsequently aggregated later in the U.S. trading day;
- a long/short portfolio requires specific execution to maintain restrictions, ratios, and guideline parameters; or

- there is a sell and short for the same security (market regulations require independent order submission for these transaction types whereas buys and covers may be aggregated); or
- Country specific operational limitations and regulatory restrictions beyond the control of Los Angeles Capital.

In general, an aggregated transaction may enable Los Angeles Capital to obtain a discounted commission charge or a more favorable execution price.

It is also possible that Los Angeles Capital may be purchasing or holding a security for one Account, and simultaneously selling the same security for another Account. Additionally, it is possible for the Firm to purchase or sell the same security for different Accounts during the same trading day but at differing execution prices. This is because trade waves created using the Wave Optimization algorithms are specific to each traded Account and use live market prices as a primary wave creation determinant. A wave traded for one Account at a particular time in the day may have a different profit/loss profile (trade decision variable) than a wave traded for another Account at a different time of the same day, but the same stock may be traded as part of both waves, resulting in different trade execution prices.

If an executing broker is unable to fill an aggregated transaction completely and only partially completes the aggregated trade, Los Angeles Capital will allocate the partially-filled transaction to clients participating in the aggregated transaction on a pro-rata basis, subject to adjustments for additional factors, including the cash availability within individual Accounts, the maintenance of appropriate security and portfolio sector weightings, and exchange- or market-specific restrictions and requirements.

On occasion, Los Angeles Capital may make investment decisions outside of its portfolio optimization process. Portfolio Managers and the Firm's Investment Committee have developed an approved list of investment decisions permitted to be made by Portfolio Managers and/or Traders in conjunction with trading an Account. Investment decisions outside of the optimization output that are NOT outlined on the approved list require the approval of two members of the Investment Committee ("IC") and one Portfolio Manager ("PM") or two PMs and one member of the IC. Investment decisions are made for such purposes as, but not limited to: covering short positions with large borrowing costs, covering short positions in stocks below a certain dollar value, or selling out of or paring back on stocks with insufficient data. Block trades are frequently executed to facilitate these investment decisions. All block



trades will be subject to the Firm's aggregated trade allocation procedures. Los Angeles Capital prohibits arranging an off-exchange cross trade between two or more of its discretionary client Accounts. However, it may be possible for the Firm to purchase and sell the same security for different Accounts as part of the Firm's Wave Optimization trading algorithm. And the Firm may submit client Account orders to one of the anonymous institutional electronic matching protocols to reduce market impact.

In general, Los Angeles Capital will not participate in an Initial Public Offering Allocation ("IPOs") due to the absence of historical company data. However, should a client benchmark immediately include an IPO as a constituent holding, and if Los Angeles Capital deems it necessary to purchase the issue to maintain client-directed portfolio risk and/or guideline compliance, then Los Angeles Capital will purchase the issue subject to its aggregated trade procedures.

### **Item 13 – Review of Accounts**

The primary departments that support Los Angeles Capital in its review of Accounts are: Portfolio Management, Operations, and Compliance.

The Portfolio Management team (the "Team") is responsible for monitoring client portfolios to make sure they reflect the firm's factor and alpha forecasts along with adherence to a client's stated investment guidelines. The Team monitors and analyzes client portfolios on a daily basis through various exception and performance reports. The Team is comprised Portfolio Managers, PM Associates, and PM Analysts. The Team's role spans across a wide spectrum of activities, including research, optimizations, compliance monitoring, and client communication. The Team touches all aspects of the investment process and reports its findings to the Portfolio Review Committee ("PRC"). The PRC is comprised of the Investment Committee and other research and operational staff. It meets monthly to discuss each portfolio's risk profile, performance, and compliance with client guidelines.

Operations is responsible for portfolio reconciliation and performs daily holdings, cash, and transaction reconciliations through system generated exception reports in addition to month-end holdings, cash, transaction, and accrual reconciliations with the client's custodian bank. All discrepancies are researched.

Compliance provides an additional level of review to monitor portfolio adherence to a client's investment guidelines. Review is conducted periodically through the review of new Account set-up, guideline amendments, and monitoring of daily holdings exception reports.

At a minimum, on a quarterly basis, written reports which list and describe portfolio holdings, trading activity, risk characteristics, and portfolio performance are delivered to clients. At the client's request, Los Angeles Capital will also prepare periodic reports of a similar nature.

Investors in the LACM Large Cap Alpha Fund L.P., LACM Emerging Markets Fund L.P., LACM Global Equity Fund L.P., and the Los Angeles Capital Emerging Markets Fund will receive monthly written partnership or shareholder statements directly from the fund administrator, in addition to the quarterly written reports described above from Los Angeles Capital.

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

Los Angeles Capital does not directly or indirectly compensate any person who is not a supervised person of Los Angeles Capital for client referrals, nor is the Firm compensated by any third party, who is not a client, for investment advice or other advisory services to clients.

#### **Item 15 – Custody**

Due to certain arrangements, Los Angeles Capital may be deemed to have “custody” of a client Account within the meaning of Rule 206(4)-2 under the Advisers Act because the Firm may have access to or authority over client funds and securities for purposes other than issuing trading instructions. If Los Angeles Capital is deemed to have custody over an Account, the custodian will send the client investor periodic account statements (generally on a quarterly basis) indicating the amounts of any funds or securities in the client Account as of the end of the statement period and any transactions in the Account during the statement period. Clients should receive at least quarterly statements from the broker-dealer, bank, or other qualified custodian that holds and maintains the client's investment assets. Los Angeles Capital urges clients to carefully review such statements and compare such official custodial records to the account statements that are provided by Los Angeles Capital. Los Angeles Capital statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Because Los Angeles Capital serves as a general partner or managing member of certain Private Funds, the Firm is deemed to have “custody” of the private funds within the meaning of Rule 206(4)-2 under the Advisers Act. For each of these Funds, Los Angeles Capital either provides each investor in the Fund with audited financial statements that comply with U.S. generally accepted accounting practices within 120 days following the funds’ fiscal year end or has an annual surprise custody exam conducted by a PCAOB registered and inspected accountant.

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

Los Angeles Capital usually receives full discretionary authority from the client to select the identity and amount of securities to be bought or sold at the outset of an advisory relationship. This authority is established in each client’s Investment Management Agreement, Limited Partnership Agreement, Prospectus, or other comparable document. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client Account.

When selecting securities and determining amounts, Los Angeles Capital observes the investment policies, limitations, and restrictions of the clients for which it advises. For registered investment companies, Los Angeles Capital’s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Clients with brokerage restrictions can and will be accommodated. Investment guidelines and restrictions must be provided to Los Angeles Capital in writing.

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

Proxy voting authority is determined in each client's Investment Management Agreement, Limited Partnership Agreement, Prospectus, or other comparable document. Voting ERISA client proxies is a fiduciary act of plan asset management that must be performed by the adviser, unless the voting right is retained by a named fiduciary of the plan.

Los Angeles Capital has hired an outside proxy voting service provider (the “Outside Proxy Provider”) to act as an independent voting agent. The Outside Proxy Provider provides objective proxy analysis, voting recommendations, and manages the operational end of the

proxy voting process. The Firm's Proxy Committee (the "Committee") is charged with oversight of Los Angeles Capital's proxy voting policies and procedures and for approving and adopting Outside Proxy Provider's guidelines.

For most Accounts, Los Angeles Capital provides corporate action administrative and processing services. In most cases, it is the responsibility of the custodian for the Account to timely and effectively communicate the corporate action notices to the Firm and, once instructed, to execute the instructions accurately.

Los Angeles Capital has adopted the Outside Proxy Provider's U.S. and International Proxy Paper Guidelines for those accounts where proxy voting authority has been granted to the Firm. However, Los Angeles Capital retains the right to ultimately cast each vote on a case-by-case basis, taking into consideration the contractual obligations under the advisory agreement and all other relevant facts and circumstances at the time of the vote.

A client may issue directives regarding how particular proxy issues are to be voted for the client's portfolio holdings. Los Angeles Capital requires that the advisory contract provide such direction, including instructions as to how those votes will be managed, particularly where they differ from Los Angeles Capital's policies. While Los Angeles Capital will accept direction from clients on specific proxy issues for their own Account, Los Angeles Capital reserves the right to maintain its standard position on all other client Accounts. Los Angeles Capital also reserves the right to abstain from voting a client proxy if it concludes that the effect on shareholders' economic interests or the value of the portfolio holding is indeterminable or insignificant, or if the costs of voting such proxy are unjustifiable.

Los Angeles Capital does not actively engage in shareholder activism, such as dialogue with management with respect to pending proxy voting issues. Los Angeles Capital abstains from voting proxies for securities that participate in a securities lending program and are out on loan or are in a country that participates in share blocking because it is disruptive to the management of the portfolio.

Los Angeles Capital attempts to minimize the risk of conflicts by adopting the policies of an independent third party. The Outside Proxy Provider takes precautions to ensure its research is objective at all times and under all circumstances. If the Outside Proxy Provider identifies a potential conflict of interest between it and a publicly-held company, it will disclose the relationship on the relevant research report and abstain from voting the proxy. The proxy is

then directed to Los Angeles Capital to vote via the Outside Proxy Provider's online platform. In these instances the Director of Operations disseminates the proxy and all relevant information to the Committee for a vote. If during this process the Committee identifies a potential material conflict of interest between Los Angeles Capital and one of its securities, the client will be notified. Upon notification the client may issue a specific directive to Los Angeles Capital on how to vote. If the client issues a directive that clearly creates a conflict of interest for Los Angeles Capital, the client will be given the option of either: (i) voting its own proxy on that issue; or (ii) turning over the decision to another independent third party to vote. If no directive is issued by the client, the Committee will vote in such a way that, in the Firm's opinion, fairly addresses the conflict in the best interest of the client. Three Committee members are required to vote on the issue.

In the event that Los Angeles Capital has not been granted authority to vote client securities, clients must make arrangements to receive their proxies or other solicitations directly from their custodian, transfer agent, or other third-party fiduciary that has been granted the authority to vote proxies. In this situation, clients should direct questions relating to a particular solicitation to their voting agent.

A complete version of Los Angeles Capital's Proxy Policy is available to clients and prospective clients upon request. Clients may direct a particular proxy vote or request at any time a copy of the voting records for their Accounts through a formal request to the Firm's Director of Operations at 310.479.9878 or via email at [operations@lacapm.com](mailto:operations@lacapm.com). Los Angeles Capital will not disclose voting records to a third party.

### **Class Actions and Proofs of Claim**

From time to time, securities that the Firm's clients have owned are the subject of class action lawsuits. Generally, holders of securities within a given class period are entitled to participate in the recovery or settlement in a class action lawsuit by filing a proof of claim. All members of a class are typically bound by a court-approved settlement or judgment in a class action unless they have filed with the court or claims administrator a timely notice choosing to opt-out of the settlement. Los Angeles Capital views the decision to file a proof of claim in class actions to be performed by the custodian for the client. In addition, the decision to elect to opt out of a class settlement is a decision to be made by the client.

Custodians typically receive notices of rights to participate in, or opt out of class action settlements. Los Angeles Capital sometimes receives such notices and the Firm has adopted

procedures to notify clients and/or their custodian. The Firm's actions and procedures with respect to class actions depend on the role we have with a client and the client's custodian.

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

As a registered investment adviser, Los Angeles Capital is required to provide certain financial information or disclosures about its' financial condition. Los Angeles Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.