

# **FIRM BROCHURE**

## **(Part 2A of Form ADV)**

March 24, 2015

### **TRIGRAN INVESTMENTS, INC.**

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This Brochure provides information about the qualifications and business practices of Trigran Investments, Inc. If you have any questions about the contents of this Brochure, please contact us at 847-656-1640. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Trigran Investments, Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

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

### Item 1 – Cover Page

Please refer to the previous page.

### Item 2 – Material Changes

This Brochure dated March 24, 2015 is our annual update of our Brochure. There have been no material updates since our last annual update of our Brochure dated March 14, 2014.

Pursuant to SEC rules, you will receive a summary of any material changes to our Brochure within 120 days after the close of our fiscal year. We may provide other ongoing disclosure information about material changes to our Brochure and will provide you with a new Brochure as necessary based on such changes or new information without charge. You may request a copy of our Brochure by contacting us by telephone at 847-656-1640 or by e-mail at [Brad@trigraninc.com](mailto:Brad@trigraninc.com). The Brochure is also available free of charge from the SEC's Investment Adviser Public Disclosure Website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)).

Additional information about Trigran Investments, Inc. is also available via the SEC's Investment Adviser Public Disclosure Website, which website also provides information about any persons affiliated with Trigran who are registered as investment adviser representatives.

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#### Item 4 – Advisory Business

Trigran Investments, Inc. (“Trigran” or “we”) is an investment adviser located in Northbrook, Illinois that was formed in 1992. Trigran provides investment advisory services to Trigran Investments, L.P. (“Trigran I”), Trigran Investments, L.P. II (“Trigran II” and together with Trigran I, the “Partnerships”) and the owners of a limited number of separately managed accounts. Trigran I was started on August 1, 1991 and Trigran II was started on January 1, 2005. Trigran, together with its affiliate Trigran Holdings LLC (“Trigran Holdings”), are the general partners of the Partnerships.

The Partnerships are private investment partnerships that seek to maximize total return for each of their respective partners (the “Partners”) primarily through capital appreciation of their investments. Trigran’s primary goal for the Partnerships is to produce long-term positive returns well in excess of the Russell 2000 Index. The investment strategy of the Partnerships is to invest in, hold, sell and trade equity securities. The primary focus of the Partnerships is to invest in a small group of “buy and hold” core positions that represent a significant portion of each Partnership’s assets. Historically, these investments have been primarily in publicly traded companies with total market capitalizations of less than \$2 billion, though the Partnerships may invest in small, medium or large capitalized companies, and such investments may be made for short-term or long-term investment horizons, may be on a leveraged or unleveraged basis, and may consist of long and/or short positions. The Partnerships are managed in a substantially similar manner and we expect their returns to continue to track closely over time.

In evaluating and selecting investments, Trigran uses a predominately fundamental approach, although we may consider other factors due to the effect they can have on stock prices. Before a material investment is made in a core position company, Trigran conducts extensive research on the company. The general characteristics Trigran seeks in core position companies include: (i) a sustainable competitive advantage; (ii) capable, owner-oriented management; (iii) high returns on invested capital; (iv) strong current or expected free cash flow; (v) understandable businesses; (vi) reliable and recurring revenue streams; (vii) a well-capitalized balance sheet; and (viii) reasonable growth prospects.

Generally speaking, the Partnerships look to invest in companies trading at sizable discounts to their intrinsic values. In addition, these companies are expected to grow their intrinsic values at reasonable rates over time. To calculate a company’s intrinsic value, Trigran analyzes the company’s financial statements, competitive position, expected future cash flows, and management strength. Trigran seeks to limit downside risk among its investments by generally requiring a core position to have a very strong balance sheet and a sustainable competitive advantage.

Trigran generally intends to take long positions in, and options on securities of, companies Trigran believes to be undervalued. Although not presently contemplated, Trigran may take a relatively limited number of short positions in, and options on, securities of companies Trigran believes to be overvalued. In addition, Trigran may from time to time purchase debt securities and use leverage to

increase the net assets of the Partnerships. The Partnerships do not currently have any short positions and are not using any leverage.

Except for a limitation on private company investments, there are no investment restrictions or predetermined limitations on the investments that may be made by the Partnerships. There are also no requirements with respect to diversification or as to the types of securities or instruments which the Partnerships may hold, buy or sell. Certain of Trigran's managed account clients do have predetermined limitations and/or requirements with respect to the types of securities or instruments that Trigran may purchase on their behalf and we tailor our services to satisfy those requirements in the manner set forth in our agreements with such clients.

As of December 31, 2014, Trigran managed \$372,100,000 of client assets on a discretionary basis. Trigran does not currently manage any client assets on a non-discretionary basis. The majority of the assets Trigran manages are in the Partnerships.

Trigran does not participate in wrap fee programs.

### ***Trigran's Owners***

The owners of Trigran, through their revocable trusts or individually, are Douglas Granat, Lawrence Oberman, Steven Simon and Bradley Simon.

Information about Trigran's principals ("Principals") and key employees is set forth in Trigran's Brochure Supplements (Part 2B of Form ADV) as well as in Part 1, Schedule A of our Form ADV.

## **Item 5 – Fees and Compensation**

### ***Management Fees***

Trigran charges fees in the manner set forth in its written agreements with its clients. Specifically, Trigran charges each Partnership a management fee equal to 0.125% per month (1.5% annually) of the net assets of each Partnership (the "Management Fee"), and is attributable to each Partner's pro rata ownership percentage of the Partnership's net assets. Trigran determines the net assets of each Partnership at the beginning of each calendar month, and the Management Fee earned by Trigran for the month is paid to Trigran by each Partnership by wire transfer as of the last day of the calendar quarter. In the unlikely event Trigran was to allow a Partner to redeem its interest prior to the end of the quarter, Trigran will pro-rate the Management Fee attributable to such Partner. Trigran's clients and Partners do not pre-pay any fees.

Trigran may reduce or waive entirely its Management Fee with respect to any of its Partners. To date, Trigran has not reduced or waived its Management Fee with respect to any Partner and does not expect to do so in the future. All Partners, including Trigran's Principals and members of their families, pay the same Management Fee percentage.

Management Fees from separately managed accounts are negotiated and calculated on a client by client basis as memorialized in each client's governing documents. In the unlikely event installments

of the Management Fee become payable for any period other than a full performance period, Trigran will adjust the Management Fee on a pro rata basis according to the actual number of days in such period. Prior to the payment due date, Trigran sends an invoice for the Management Fee to its managed account clients, who then pay the Management Fee to Trigran by check or wire for the period.

### ***Performance-Based Fees***

An affiliate of Trigran, Trigran Holdings, receives a performance-based, profit allocation from the Partnerships in an amount equal to 10% of New Trading Profits as described in Item 6 of this Brochure. Performance-based fees from separately managed accounts are negotiated and calculated on a client by client basis as memorialized in each client's governing documents.

### ***Ongoing Expenses***

Each Partnership pays all of its ongoing legal, insurance and outside accounting and auditing expenses. Such expenses are allocated to each Partner in proportion to its ownership percentage of the net assets of the applicable Partnership. In addition, each Partnership and managed account client bears all expenses arising out of transactions executed, including brokerage commissions, custody fees, and other transaction costs as described in Item 12 of this Brochure.

Trigran does not receive compensation for the sale of securities or other investment products.

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

Trigran Holdings, an entity under common control with Trigran, receives a performance-based, profit allocation determined and allocated on an annual basis equal to 10% of New Trading Profits (as defined in the Partnerships' offering documents as profit in a particular year in excess of a "high-water mark") experienced by each Partner's capital account in the prior year (the "Incentive Allocation"). Trigran Holdings has structured its performance-based profit allocation in accordance with Section 205(a)(1) of the Investment Advisers Act of 1940 as amended (the "Advisers Act"), and the available exemptions thereunder, including the exemption set forth in Rule 205-3.

When computing the Incentive Allocation, Trigran Holdings only receives an Incentive Allocation with respect to a Partner's capital account if the Partnership has recouped all prior losses with respect to such Partner's capital account (i.e., the capital account is at a "high water mark") in accordance with the Partnerships' offering documents.

Incentive Allocations are retained by Trigran Holdings and are not repayable if the value of the net assets represented by the Partner's capital account to which any such Incentive Allocation has been made subsequently declines. This could result in substantial Incentive Allocations being made to Trigran Holdings despite the fact that an overall decline in net assets has occurred.

If a Partner withdraws funds from the Partnership at a time when the Incentive Allocation is not otherwise due (i.e., prior to December 31), Trigran Holdings will receive the Incentive Allocation on

such withdrawn funds if there are New Trading Profits on the withdrawn funds as of the effective date of the withdrawal.

Trigran Holdings establishes its Incentive Allocation at the time the relevant investment account in the Partnership is opened. Notwithstanding the foregoing, Trigran Holdings may reduce or waive its Incentive Allocation with respect to any of its Partners; however, to date, Trigran Holdings has not reduced or waived the Incentive Allocation with respect to any of its Partners and does not expect to do so in the future. All Partners, including Trigran's Principals and members of their families, are allocated the same Incentive Allocation percentage.

### ***Potential Conflicts of Interest***

The allocation to Trigran Holdings of the Incentive Allocation may create an incentive for the Partnerships to make investments that are riskier or more speculative than would be the case in the absence of the Incentive Allocation.

Trigran Holdings may receive an Incentive Allocation based upon unrealized appreciation as well as realized gains. In the event the Partnerships were to own any private company investments or illiquid securities for which market quotations are not readily available, the determination of unrealized appreciation of such securities would be made by Trigran. This may create an incentive for Trigran to inflate the value of private and/or illiquid securities in order for Trigran Holdings to receive, or receive a greater, Incentive Allocation. As mentioned below, the Partnerships do not own any private company investments.

Performance-based arrangements create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Trigran has procedures designed and implemented to ensure that all clients are treated fairly and to prevent this potential conflict of interest from influencing the allocation of investment opportunities among clients.

A more complete discussion of potential conflicts of interest specific to an investment in a Partnership is included in the applicable Partnership's offering documents.

### **Item 7 – Types of Clients**

Trigran's clients are Trigran I, Trigran II and the owners of a limited number of separately managed accounts. Trigran I and Trigran II are private investment partnerships that are excluded from registration as privately offered funds pursuant to Section 3(c)(1) and Section 3(c)(7), respectively, of the Investment Company Act of 1940. None of Trigran's clients are domiciled outside of the United States and all new Partners must be "qualified clients" or "qualified purchasers". Partners and advisory clients typically consist of individuals, high net worth individuals, family offices, profit sharing and retirement plans, trusts, endowments, estates, corporations and other business entities. In addition, employees and other persons associated with Trigran are also Partners.

Unless otherwise permitted by Trigran, the minimum investment in the Partnerships is \$500,000. The minimum investment for a separately managed account is determined by Trigran based on a

variety of factors, including the client's desire for account customization, reporting requirements, and similar factors.

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

The Partnerships are private investment partnerships that seek to maximize total return for each of their respective Partners primarily through capital appreciation of their investments. The Partnerships' investment strategy is to invest in, hold, sell, and trade equity securities. The Partnerships' primary focus is to invest in a small group of "buy and hold" core positions. Historically, these investments have been primarily in publicly traded companies with total market capitalizations of less than \$2 billion, however, from time to time, Trigran may apply the same investment methodology to larger public companies and a limited number of private company investments as well.

Generally speaking, the Partnerships look to invest in companies trading at sizable discounts to their intrinsic values. In addition, these companies are expected to grow their intrinsic values at reasonable rates over time. To calculate a company's intrinsic value, Trigran analyzes the company's financial statements, competitive position, expected future cash flows, and management strength. Trigran seeks to limit downside risk among its investments by generally requiring core positions to have a very strong balance sheet and moderate levels of debt. In addition, the Partnerships are permitted to invest in a variety of assets, including stocks, bonds, notes, warrants, puts and calls, cash equivalents and other public or private investment securities and instruments.

A significant portion of each Partnership's assets are, and are expected to remain, invested in equity securities of approximately 8 to 12 companies which constitute such Partnership's core positions. These investments have anticipated holding periods of three to five years. As additional capital becomes available, the Partnerships may increase or decrease their holdings in existing positions or may add to, or subtract from, the number of core holdings.

In evaluating and selecting investments for the Partnerships and certain managed accounts, Trigran uses a predominately fundamental approach, although it may consider technical factors due to the effect they can have on stock prices. Before a material investment is made in a core position company, Trigran conducts extensive research on the company. The general characteristics Trigran seeks in core position companies include: (i) a sustainable competitive advantage; (ii) capable, owner-oriented management; (iii) high returns on invested capital; (iv) strong current or expected free cash flow; (v) understandable businesses; (vi) reliable and recurring revenue streams; (vii) a well-capitalized balance sheet; and (viii) reasonable growth prospects.

Trigran generally intends to take long positions in, and options on securities of, companies Trigran believes to be undervalued. Although not presently contemplated, Trigran may take a relatively limited number of short positions in, and options on, securities of companies Trigran believes to be overvalued. Trigran may also cause the Partnerships to invest in a limited number of securities that are not publicly traded (i.e., private companies). In addition, Trigran may from time to time



purchase debt securities and use leverage to increase the net assets of the Partnerships. The Partnerships do not currently have any short positions, do not own shares of any private companies and are not using any leverage.

Except for a limitation on private company investments, there are no investment restrictions or predetermined limitations on the investments that may be made by the Partnerships. There are also no requirements with respect to diversification or as to the types of securities or instruments that the Partnerships may hold, buy or sell. Certain of Trigran's managed account clients do have predetermined limitations and/or requirements with respect to the types of securities or instruments that Trigran may purchase on their behalf and we tailor our services to satisfy those requirements in the manner set forth in our agreements with such clients.

Investing in securities involves risk of loss, including the possibility of a complete loss of the amount invested, that clients should be prepared to bear. Other risks associated with Trigran's investment strategy include, but are not limited to, those set forth below.

### ***Market Risk***

Trigran's trading and investment strategies are subject to market risk. There can be no assurance that what is perceived as an investment opportunity will not, in fact, result in substantial losses as a result of one or more of a wide variety of factors. The Partnerships and our clients' separately managed accounts can only be successful if Trigran is able to trade and invest successfully, and there can be no assurance that this will be the case.

### ***Limited Capitalization Companies***

The Partnerships invest a meaningful portion of their assets in the securities of companies with limited market capitalizations (i.e., small-capitalization companies). While Trigran believes these companies often provide significant potential for appreciation, these securities involve higher risks in some respects than do investments in securities of larger companies. For example, stock prices of small-capitalization companies are often more volatile and more vulnerable to adverse business and economic developments than those of medium-capitalization companies and large-capitalization companies. The risk of bankruptcy or insolvency of many smaller capitalized companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in certain small-capitalization securities, an investment in those securities may be less liquid than investments in larger companies, making it more difficult for the Partnerships to buy and sell such securities.

### ***No Formal Diversification Policies***

Except with respect to investments in private companies and restrictions in connection with certain separately managed accounts, Trigran is not restricted as to the percentage of each client's assets that may be invested in any particular instrument or market. Likewise, the Partnerships and certain managed accounts have not adopted fixed guidelines for diversification of its investments among

issuers, industries, instruments or markets and may be heavily concentrated in a limited number of positions.

### ***Investments in Equity Securities***

Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer that remain after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer.

### ***Investments in Thinly Traded and Illiquid Securities***

Trigran may invest in thinly traded and illiquid securities on behalf of the Partnerships and certain managed accounts. As a result, clients may be required to hold such securities despite an adverse price movement and might only be able to liquidate these positions at disadvantageous prices should Trigran determine, or it become necessary, to do so.

### ***Restricted Liquidity***

From time to time, the Partnerships and/or managed accounts may hold investments that Trigran is unable to value with any reasonable degree of certainty or which Trigran may deem illiquid. Liquidation of these investments may be limited by contractual or legal restrictions or by Trigran's determination that such liquidation would not be in the best interests of the Partnerships, Partners or managed account clients. If a Partner requests a withdrawal from a Partnership during a period when such an investment is perceived by Trigran to be illiquid, or unable to be liquidated at a value that Trigran determines to be "fair value," Trigran will unilaterally determine the value of such investment. Trigran may defer payments of withdrawals for an indeterminate period of time and reserves the right to effect a withdrawal of a Partner's capital account by distribution of securities in-kind. To date, we have never deferred payments of withdrawals nor made a distribution of securities to effect a withdrawal of capital.

### ***Counterparty Risk***

The Partnerships and our managed accounts are subject to the risk that the brokers and counterparties with whom they execute transactions may default. The default by an exchange, clearinghouse or counterparty with whom our clients trade could result in material losses.

### ***FINRA New Issue Limit***

FINRA Rules prohibit securities firms from selling "new issues" (i.e., underwritten offerings such as initial public offerings) to investment partnerships if restricted persons hold beneficial interests in the partnership in excess of 10%. As a consequence of these rules, if a restricted person holds an interest in a Partnership, the Partnership may be prohibited from purchasing securities in certain offerings, or alternatively, the Partnership may purchase such securities but the restricted person

shall not necessarily receive his or her full pro-rata share in the gains or losses resulting from such securities.

A more complete discussion of risk factors specific to an investment in a Partnership is included in the applicable Partnership's offering documents.

**Clients and Partners should carefully review the offering documents of the applicable Partnership to ensure that they are aware of and understand the risks and costs involved in such an investment.**

### Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of the adviser or the integrity of their management. Neither Trigran nor any of its management persons has been the subject of any legal or disciplinary events. Therefore, Trigran has no information to disclose in response to this Item 9.

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

Neither Trigran nor its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, or as a futures commission merchant, a commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities.

Except as described in this Brochure, neither Trigran nor its management persons has any relationship or arrangement with any related person who is associated with any of the following organizations: (i) a broker-dealer, municipal securities dealer, or government securities dealer or broker; (ii) an investment company or other pooled investment vehicle; (iii) an other investment adviser or financial planner; (iv) a futures commission merchant, commodity pool operator, or commodity trading adviser; (v) a banking or thrift institution; (vi) an accountant or accounting firm; (vii) a lawyer or law firm; (viii) an insurance company or agency; (ix) a pension consultant; (x) a real estate broker or dealer; or (xi) a sponsor or syndicator of limited partnerships.

Trigran has and will continue to develop relationships with professionals who provide services it does not provide, including legal, accounting, banking, tax preparation, insurance brokerage, and other personal services. None of the above relationships, however, create a material conflict of interest with any of Trigran's clients.

One of our advisory affiliates, Douglas Granat, is a minority owner of an unaffiliated investment adviser based in Chicago, Illinois ("Unaffiliated Chicago Adviser") and serves on its investment committee and receives nominal compensation for serving in that role. Mr. Granat also has an investment in the fund that the Unaffiliated Chicago Adviser advises. In addition, one of our managed account clients has an investment in Trigran I and also in the fund advised by the

Unaffiliated Chicago Adviser, and certain advisory affiliates of the Unaffiliated Chicago Adviser are Partners in a Trigran Partnership. The foregoing relationship is not material to Trigran's advisory business or clients and, in light of the very different investment activities conducted by Trigran and the Unaffiliated Chicago Adviser, we do not believe that Mr. Granat's affiliation with the Unaffiliated Chicago Adviser poses any material conflict of interest.

An affiliate of Trigran, Trigran Ventures, LLC, is a minority owner of an unaffiliated investment adviser based in New York, New York ("Unaffiliated New York Adviser"). None of our advisory affiliates serve on the investment committee of the fund advised by the Unaffiliated New York Adviser or receive any compensation from the Unaffiliated New York Adviser. The foregoing relationship is not material to Trigran's advisory business or clients and, in light of the very different investment activities conducted by Trigran and the Unaffiliated New York Adviser, we do not believe that our investment poses any material conflict of interest.

Except as described above, Trigran does not recommend or select other investment advisers for its clients.

From time to time, Trigran may receive training, information, promotional material, meals or gifts from vendors and others with whom it does business. At no time will Trigran accept any benefits, gifts or other arrangements that are conditioned on directing individual client transactions to a specific security, product or provider.

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

#### ***Code of Ethics***

As fiduciaries, Trigran and its employees have certain legal obligations to put clients' interests ahead of their own. Trigran has adopted a Code of Ethics that sets forth standards of conduct required of Trigran and its personnel that is based on principles of openness, honesty, integrity and trust. The Code of Ethics includes provisions, among others, relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts, and personal securities trading procedures. All supervised persons at Trigran must acknowledge the terms of the Code of Ethics at least annually or at such times the Code of Ethics is amended materially.

In rare cases, Trigran's business may provide Trigran and its employees with access to material nonpublic ("insider") information. The Code of Ethics includes a prohibition on insider trading and outlines strict policies that dictate how any such information is treated.

Employees of Trigran who violate the Code of Ethics may be subject to remedial actions including, but not limited to, profit disgorgement, fines, censure, suspension or dismissal. Personnel are also required to promptly report any violations of the Code of Ethics of which they become aware.

Trigran's clients or prospective clients may request a copy of Trigran's Code of Ethics by contacting us at [Brad@trigraninc.com](mailto:Brad@trigraninc.com) or 847-656-1640.

### ***Participation or Interest in Client Transactions***

Trigran anticipates that, in appropriate circumstances and consistent with its clients' investment objectives, it will cause accounts over which Trigran has management authority to effect, and may recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Trigran, its affiliates and/or clients have a position of interest, including the funds that the Unaffiliated Advisers advise. Trigran's personnel are required to follow its Code of Ethics and Compliance Manual in these circumstances. Prior to recommending to a client an investment in a fund managed by an Unaffiliated Adviser, Trigran explicitly discloses its relationship with the Unaffiliated Adviser.

Trigran and certain employees and affiliates of Trigran may invest in the Partnerships as direct investors in the Partnerships. A Partnership may exempt such persons from all or a portion of the Management Fee or Incentive Allocation; however, to date, no fees or allocations have been reduced or waived. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see "Conflicts of Interest" immediately below.

Given the nature of Trigran's advisory business, it is Trigran's policy not to engage in principal transactions for itself or any of its affiliates. Similarly, given the nature of Trigran's advisory business, it is Trigran's policy not to cause two or more clients to engage in cross transactions with each other. 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. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

### ***Conflicts of Interest***

The offering documents for each Partnership detail a complete description of what Trigran believes to be the most significant conflicts of interest associated with an investment in a Partnership. Some of these conflicts are summarized below and in Item 6 and Item 8 above; however, this summary does not attempt to describe all of the conflicts of interest associated with an investment in the Partnerships or otherwise. Investors should carefully consider the conflicts of interest herein as well as those outlined in Trigran's offering documents prior to investing.

In the event that Trigran or an affiliate encounters what it determines to be an actual conflict of interest in connection with a Partnership or separately managed account, Trigran may take such actions as may be necessary or appropriate, within the context of such client's governing documents,

to ameliorate the conflict. These actions may include disposing of the asset giving rise to the conflict or bringing the matter before Trigran's Board of Directors or external legal counsel. There can be no assurance that all conflicts of interest will be successfully resolved.

Trigran and its Principals concurrently advise the Partnerships and the separately managed accounts. The Partnerships' and separately managed accounts' fee structures and other features may differ from one another, and one structure may be more beneficial to Trigran than another. Although Trigran is committed to treating all accounts fairly, Trigran may have an incentive to favor accounts with more beneficial fee structures. In addition, there can be no assurance that the advice to a separately managed account will be either the same or different from the advice rendered to the Partnerships. As described above, Trigran also manages both Trigran I and Trigran II substantially in parallel with each other. Nevertheless, due to certain factors such as the difference in timing of subscriptions and redemptions, and the difference in the commencement date of Trigran II and Trigran I, the portfolio composition of each Partnership (and therefore the performance of the Partnerships) may differ.

Trigran's Principals, employees and affiliates may invest directly in a Partnership as Partners. Trigran may charge such Principals', employees' and affiliates' capital accounts lower fees (and possibly no fees) than other Partners. Historically, however, Trigran has not reduced or waived any fees with respect to Trigran's Principals, employees and affiliates or any other Partner. The significant collective investment of Trigran's Principals, employees and affiliates in the Partnerships, as well as the Principals' interest in the Incentive Allocation, operate to align, to some extent, Trigran's interest with the interest of each Partnership's Partners, although Trigran has economic interests and receives management fees and Incentive Allocations with respect to each of its Partnerships and certain of its managed accounts.

Each Partnership's Partners may include persons or entities resident in various jurisdictions, including the United States and other countries, which may have conflicting investment, tax and other interests with respect to their investments in each Partnership. The conflicting interests of individual Partners may relate to or arise from, among other things, the nature of investments made by each Partnership, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by Trigran that may be more beneficial for one Partner than another Partner, especially with respect to Partners' individual tax situations. Trigran considers the investment and tax objectives of each Partnership as a whole, and not the individual investment, tax or other objectives of any particular Partner.

### ***Personal Trading***

Subject to satisfying the Code of Ethics and applicable laws, Trigran and its personnel may, on rare occasions, own or trade for their own accounts securities which are recommended to or purchased for Trigran's clients. Trigran and its personnel may also own or trade for their own accounts securities that are not recommended to or purchased for Trigran's clients. Trigran's Code of Ethics

is designed to assure that the personal securities transactions, activities and interests of Trigran and its personnel will not interfere with making decisions that are in the best interests of Trigran's clients while, at the same time, allowing Trigran and its personnel to invest for their own accounts. Depending upon a person's functions, duties and obligations, these policies and procedures may require pre-clearance and/or reporting of personal securities transactions. They may also contain timing and other restrictions on transactions, including outright prohibition and compliance certification. Under the Code of Ethics, transacting in certain classes of securities has been designated as exempt transactions based upon a determination that these transactions would not materially interfere with the best interests of Trigran's clients.

Employee trading is monitored under the Code of Ethics to reasonably prevent conflicts of interest between Trigran and its clients. Among other procedures, supervised persons are required to submit quarterly reports of securities transactions for their own accounts or any account in which they have a direct or indirect beneficial interest.

### Item 12 – Brokerage Practices

Trigran has complete authority over the selection of brokers used by the Partnerships. We may consider all relevant factors when selecting brokers including cost, the execution capabilities required by the transaction, the importance of speed, efficiency or confidentiality, and familiarity with the sources from whom and to whom particular securities might be purchased. Trigran is under no obligation to deal with any particular broker or group of brokers, and orders for investments may be placed with a number of brokers. In selecting brokers, Trigran does not consider whether Trigran or a related person receives client referrals from a broker or third party.

The securities transactions executed by the Partnerships are transacted through a number of brokers selected by Trigran on terms negotiated with each broker individually. In certain separately managed accounts, the client is permitted to select the broker to effect transactions. In such cases, Trigran may be unable to achieve the most favorable execution of such client transactions, which may result in costing the client more money. For example, the client may pay higher brokerage commissions because we may not be able to aggregate offers to reduce transaction costs or the client may receive less favorable prices.

In selecting brokers to effect portfolio transactions, Trigran partially considers the research services each broker provides. Such research services generally may be of benefit to clients but may not directly relate to transactions executed on their behalf. We do not generally attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients as we believe that the research we receive will help us to fulfill our overall duty to our clients. Accordingly, Trigran may, at times, be deemed to be paying for research and other products and services with "soft" or commission dollars. If Trigran determines in good faith that the amount of transaction costs imposed by a broker is reasonable in relation to the value of the research services it provides, Trigran may and could have an incentive to incur transaction costs in an amount greater than the amount that might be incurred if another firm were used. Research services

provided to Trigran may include research reports on particular industries and companies, financial projections, economic surveys and analyses, recommendations as to specific securities and other services. Trigran believes that in all cases such arrangements will not fall outside of the safe harbor for fiduciaries' use of soft dollar payments established by Section 28(e) of the Securities Exchange Act of 1934.

Each Partnership has, and is expected to continue, to own the same securities as the other. Certain separately managed accounts will also likely own at least some of the same securities as the Partnerships. Accordingly the Partnerships, and certain managed accounts when applicable, will trade such securities on an aggregated basis when consistent with Trigran's obligation of best execution. In such circumstances, the foregoing accounts share commission costs equitably and receive securities at a total average price. Completed and partially filled orders are generally allocated to applicable clients pro-rata based on assets under management, subject to minimum share order quantities. Trigran retains records of its clients' trade orders and their allocation.

### **Item 13 – Review of Accounts**

Trigran regularly reviews each client's account. Specifically, on the morning of each business day, Trigran's Chief Compliance Officer or his designee reviews each Partnership's prime brokerage account statement to ensure that the prime broker's records conform to the information contained in each Partnership's books and records. Trigran's Chief Compliance Officer or his designee reviews the account statements of certain managed accounts on a daily basis and other managed accounts at least monthly.

On a monthly basis, Trigran's Chief Compliance Officer formally reconciles each client's books and records, reviews client and Partner accounts and the balances thereof, and prepares a number of reports. These reports include portfolio appraisals, realized and unrealized gain and loss reports, income and expense reports, purchase and sale reports, and performance reports.

On a quarterly basis, Trigran provides each Partner with a written report that contains the Partnership's unaudited financial statements, its individual statement of capital and a letter covering a broad range of topics including recent and historical performance information of the Partnership. Trigran provides its managed account clients with reports on a quarterly basis, or more frequently if requested.

On an annual basis, Trigran provides each Partner with audited financial statements of the applicable Partnership within 120 days after the end of the calendar year and a copy of Trigran's privacy policy. All reports are sent in writing and/or delivered electronically.

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

Trigran does not receive an economic benefit from non-clients for providing investment advice or other advisory services to clients. Likewise, Trigran does not compensate any person for client referrals.



In accordance with the Partnerships' offering documents, Trigran may select one or more registered broker-dealers or selling agents to effect sales of Partnership interests and to pay placement or referral fees or commissions to such broker-dealers or selling agents in an amount which Trigran believes to be appropriate. To that end, Trigran currently has a non-exclusive relationship with a duly licensed broker-dealer who solicits potential partners for the Partnerships. Trigran pays such broker-dealer a portion of the management fees and incentive allocations collected by Trigran with respect to the capital accounts of Partners it introduced to Trigran. Those Partners introduced by such referring broker-dealer do not pay, in total, any more than Partners who were not introduced by such broker-dealer; the fee is borne entirely by Trigran and not by any affected investors.

#### Item 15 – Custody

The assets of the Partnerships are maintained at banks and brokerage firms selected by Trigran. At the present time, substantially all of the cash and securities of the Partnerships are held at J.P. Morgan in New York. Because we are a general partner of the Partnerships, we are deemed to have custody of the cash and securities of the Partnerships. On an annual basis, an independent public accounting firm audits the Partnerships and we distribute the audited financial statements to all Partners within 120 days after the end of the calendar year.

Trigran does not have custody of any managed account client's cash, bank accounts, or securities. The assets of managed account clients are held at banks and brokerage firms selected by the client, none of which are affiliated with Trigran or its related persons. All checks deposited into a client's custodial account are made payable either to the custodian or for the benefit of the account name.

#### Item 16 – Investment Discretion

Trigran has full discretionary investment management authority of each Partnership. Prior to becoming a Partner, all prospective investors are presented with and sign the applicable Partnership's subscription agreement and related documents. A prospective investor's execution of the Fund's subscription agreement constitutes its execution of the Fund's governing documents.

Prior to being appointed as the investment adviser to a managed account client, Trigran and the client enter into an Investment Advisory Agreement that sets forth the objectives of the client and any limitations on Trigran's discretionary investment management authority over the assets of the client. Such limitations vary based upon the objectives of the client.

#### Item 17 – Voting Client Securities

As a registered investment adviser, Trigran has a fiduciary duty to act in the best interests of its clients. This duty requires Trigran to vote proxies on behalf of the Partnerships in a timely manner and to make voting decisions that are in the best interests of the Partnerships. Managed account clients receive their proxies directly from their custodians or brokers. Trigran does not vote proxies on behalf of its managed account clients unless specifically requested to do so by a client in account

opening documents or subsequently. Trigran has adopted proxy voting policies and procedures that comply with Rule 206(4)-6 of the Investment Advisers Act of 1940.

In the unlikely event a conflict of interest arises between Trigran and a client with respect to voting their securities, as a general policy Trigran will vote in favor of proxy proposals that enhance the independence of board membership, against measures that promote anti-takeover defenses, and for incentive compensation that would align management interests with shareholder interests. Corporate governance issues, however, are diverse and continually evolving and these general policies may not be relevant in some circumstances. In such cases, Trigran reserves the right to review the specific facts in each case and to decide on a vote that would serve the best interests of its clients.

Trigran's clients may request a copy of Trigran's proxy voting records, free of charge, by sending us a request at [Brad@trigraninc.com](mailto:Brad@trigraninc.com) or 847-656-1640. Clients may also obtain a copy of our proxy voting policies and procedures, free of charge, upon request.

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

Registered investment advisers are required to provide their clients with certain financial information and/or disclosures about their financial condition. Trigran has no financial commitments that impair its ability to meet its contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.