



**FIRM BROCHURE AND BROCHURE SUPPLEMENT**  
(Part 2A of Form ADV)

**LONE STAR VALUE MANAGEMENT, LLC**

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This brochure provides information about the qualifications and business practices of Lone Star Value Management, LLC. If you have any questions about the contents of this brochure, please contact us by telephone at 203.489.9500 or by electronic mail at [hb@lonestarvm.com](mailto:hb@lonestarvm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Lone Star Value Management, LLC is available on the website maintained by the Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Note: Registration as a registered investment advisor does NOT imply a certain level of skill or training.

**March 2015**

## ITEM 2

### MATERIAL CHANGES

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#### **Material Changes Since Last Annual Amendment**

This is the initial firm brochure and brochure supplement.

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#### **Full Brochure Available**

If at any time you would like to receive a copy of the current firm brochure, please contact Hannah Bible by telephone at 203.489.9500 or by electronic mail at [hb@lonestarm.com](mailto:hb@lonestarm.com). Alternatively you may contact Kyle Hartley by telephone at the same telephone number or by electronic mail at [kh@lonestarm.com](mailto:kh@lonestarm.com).

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## ITEM 4

### **ADVISORY BUSINESS**

#### A. General Description of Advisory Firm

##### **1. Firm Description**

Lone Star Value Management, LLC (“LSVM”) was organized as a limited liability company under the laws of the State of Connecticut in 2013 and has offices in Old Greenwich, Connecticut. LSVM is in the process of registering as an investment advisor with the United States Securities and Exchange Commission (the “SEC”) and expects to be registered within the second quarter of 2015.

##### **2. Principal Owners**

Jeffrey E. Eberwein is the sole member of LSVM and owns 100% of the firm.

#### B. Description of Advisory Services

##### **1. Advisory Services**

LSVM serves as the management company for a number of investment funds including, without limitation, Lone Star Value Investors, LP, a Delaware limited partnership (“LSVI LP”). Lone Star Value Investors GP, LLC (“LSV GP”) serves or will serve as the general partner of LSVI LP and other funds which from time to time may be established. Additionally LSV GP serves as the general partner to Lone Star Value Co-Invest I, LP (“LSV I”) and Lone Star Value Co-Invest II, LP (“LSV II”), two special purpose investment limited partnerships organized under the laws of Delaware (collectively the “SPV Funds”). LSVM serves as the management company for the SPV Funds. Interests in LSVI LP, LSV I, and LSV II’s (collectively the “LSV Partnerships” or the “Funds”) are offered on a private placement basis, in compliance with the exemptions provided by Section 3(c)(1) of the Investment Company Act of 1940 (“Investment Company Act”), to persons who are “accredited investors” as defined under Regulation D under the Securities Act of 1933 (“Securities Act”) and “qualified purchasers” as defined in the Investment Company Act, and are subject to other conditions set forth within the offering documents for the LSV Partnerships.

LSVM may, from time to time serve as the advisor or management company for additional funds or products, is not limited to certain types of investments, and may invest alongside the Funds.

LSVM services include the management of equity and total-return portfolios, as well as other specialty investment portfolios.

LSVM generally manages the assets of its clients on a fully discretionary basis. LSVM does not call any of the services that it provides financial planning or some similar term.

The term “client” when used within this document generally refers to one of the Funds.

## **2. Investment Strategies and Types of Investments (Marketing)**

LSVM seeks to create value for the LSV Partnerships by attempting to identify deeply undervalued securities and then unlocking value by constructive activism, often in partnership with other shareholders of portfolio companies. LSVM will generally, but not always, focus on companies with small market capitalizations (“small-cap companies”) whose stock prices it believes are deeply discounted to intrinsic value. Small-cap companies often are relatively under-followed by the investment community, leading to what LSVM believes is less competition and inherent inefficiencies. Small-cap companies can provide a larger opportunity set for finding value and a greater chance of being able to fix typical problems. While the principal investment objective of the Funds is to achieve long-term capital appreciation through value-creation investing in public securities issued by portfolio companies, LSVM generally has broad and flexible investment authority. Accordingly, the LSV Partnerships’ positions may include a wide variety of securities and financial instruments or varied market capitalizations.

### **C. Tailored Relationships**

LSVM tailors its investment advice to the particular needs, investment objectives, and investment guidelines of each of its clients. Depending upon a particular Fund’s objective and strategy, investments may differ significantly.

### **D. Regulatory Assets Under Management**

As of December 31, 2014, LSVM managed approximately \$163,980,000 of client assets on a discretionary basis and no assets on a non-discretionary basis.

## Item 5

### **FEES AND COMPENSATION**

#### A. Advisory Fees and Compensation

The applicable fees and compensation payable to LSVM by each Fund are set forth within each Fund's offering documents. A summary of the fees is found below. LSVM computes its fees based on the net market value of the assets in the Fund or, in the absence of a readily ascertainable market value, based on its good-faith determination of the fair value of the Fund assets in accordance with LSVM's valuation policy. LSVM may hold cash in accounts for strategic and other purposes.

LSVM has the flexibility to change, waive, or calculate differently its fees in its sole discretion and to increase or decrease the minimum account size with respect to one or more limited partners.

A Fund may bear: any taxes imposed on the fund; all fees and expenses incurred in connection with investment expenses; fees and expenses of any administrator; expenses of custodians, outside counsel, accountants and consultants; expenses of any litigation involving the Fund; and other similar expenses specifically articulated within its private placement memorandum and limited partnership agreement.

#### **1. LSVI LP**

All limited partners are qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act.

Management Fee. LSVM is generally paid an annual fee equal to a percentage of the assets under management (a management fee). Typically LSVM charges fees quarterly in advance, and in general LSVM deducts its fees directly from the Fund's accounts. LSVM may in its sole discretion waive the management fee with respect to a particular limited partner.

Incentive Allocation [Method 1]. In addition to the management fee, LSVM is paid an annual incentive allocation equal to a percentage of the annual increase, if any, in the net asset value of each investor's capital account in LSVI LP. This performance allocation is calculated based on both realized gains and losses and unrealized appreciation and depreciation of securities held in the Fund's portfolio. Generally, any decrease in net assets in a fiscal year allocated to any limited partner's capital account is carried forward in a loss recovery account, so that no performance allocation is charged to that capital account until the losses have been recouped, subject to various adjustments.

#### **2. LSV Special Purpose Vehicle ("SPV") Funds**

Management Fee. LSVM is generally not paid a management fee with respect to the SPV Funds, but some of the SPV Funds have the ability to charge a management fee. The details of any management fee are set forth in the offering documents of each specific SPV Fund.

Incentive Allocation [Method 2]. Upon a current SPV Fund's distribution, assets will be apportioned pro rata among the LSV GP and the SPV Fund limited partners, with 100% allocated to the limited partners on a pro rata basis until each limited partner has received in cumulative distributions an amount equal to such limited partner's capital contributions to the SPV Fund. Thereafter, 90% is allocated to the limited partners on a pro rata basis and 10% to LSV GP.

Future SPV Funds may also in accordance with their operating documents charge an annual incentive allocation similar to Method 1 articulated above. Method 1 and Method 2 will not be applied to the same Fund.

#### B. Payment of Fees

Fees and compensation paid to LSVM or its affiliates by the Funds are generally deducted from the assets of the Funds. Management fees are generally deducted on a quarterly basis, and performance compensation is generally deducted on an annual basis or upon dissolution of the Fund.

#### C. Additional Fees and Expenses

Other expenses charged to the LSV Partnerships are disclosed in detail within the applicable limited partnership agreements and private placement memoranda. Such expenses include but are not limited to: taxes imposed on a Fund; accounting fees; auditing costs; investment expenses; brokerage commissions; expenses relating to short sales; clearing and settlement charges; bank service fees; the costs of investigating actual or potential investments; due diligence and other costs related to the acquisition, holding, disposition, bankruptcy or restructuring of investments; fees and expenses of any administrator; expenses of custodians; expenses of outside counsel; and other expenses related to the LSV Partnerships.

Brokerage firms typically charge transaction fees on purchases or sales of securities, and account custodians may charge custodial fees. These charges are usually small in relation to the value of the account. The selection of the security is more important than the fees that a brokerage firm charges to buy or sell the security. Investors do not have the option to select a brokerage firm of their own choosing to execute transactions within LSV Partnerships. For additional information about transaction expenses, please see the section of this firm brochure and brochure supplement entitled "Brokerage Practices."

#### D. Timing of Payments

LSV Partnerships' limited partners that pay a management fee pay the fee as of the first business day of each calendar quarter. In the event of capital contributions occurring other than as of the beginning of a calendar quarter, the management fee will be prorated. However, in the event of withdrawals occurring prior to the end of a calendar quarter, the withdrawing limited partner will not be entitled to reimbursement of a pro rata portion of the management fee with respect to the withdrawn amount for the period remaining in such quarter subsequent to the withdrawal date.

#### E. Additional Compensation and Conflicts of Interest

Neither LSVM nor any of its supervised persons accepts compensation (e.g., brokerage commissions) for the sale of securities or other investment products.



## **Item 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

In addition to the management fee, LSVM may be paid an annual incentive allocation, charged annually, equal to a percentage of the assets under management in a Fund account as of December 31 each year or upon dissolution of the applicable Fund. This fee is based on a share of the capital gains or capital appreciation of the assets of a Fund. This is referred to as an incentive allocation with a standard high-water mark.

LSVM has the flexibility to change, waive, or calculate differently its fees in its sole discretion and to increase or decrease the minimum account size with respect to one or more limited partners.

LSVM may have a conflict of interest if it receives performance based-based compensation from some clients but not others. LSVM may have an incentive to favor accounts for which it receives performance-based compensation. LSVM addresses these conflicts through this disclosure.

## **Item 7**

### **TYPES OF CLIENTS**

#### **A. Description**

LSVM provides advice to the Funds, which are private investment funds. Investors in the Funds may include high net worth individuals, pension funds and profit sharing plans, trusts, estates, charitable organizations, corporations, business entities, endowments and other entities as permitted by the particular Funds' offering documents.

#### **B. Minimum Account Size**

LSVM generally requires a minimum of \$1 million for investment in LSVI LP. Any minimum additional subscription to LSVI LP will be \$500,000, subject in each case to LSV GP's discretion to accept additional subscriptions in lesser amounts or to establish additional or different amounts in the future. Minimum investment amounts for the SPV Funds vary by Fund but are in each case also subject to LSV GP's discretion to accept a lesser amount.

#### **C. Know Your Customer**

It is LSVM policy to know and understand the identities of investors and prospective investors in the Funds and the business reasons for any transactions in which LSVM engages on behalf of these investors. LSVM does not directly or indirectly conduct business with any person or entity whose identity and source of funds have not been verified to the satisfaction of the Fund administrator.

## Item 8

### **ANALYSIS METHODS, INVESTMENT STRATEGIES, AND RISK OF LOSS**

#### A. Methods of Analysis and Investment Strategies

##### **1. Investment Strategies**

Generally, the Funds invest primarily in publicly traded securities but may engage in other transactions in pursuit of overall long-term returns, as disclosed in the limited partnership agreements, the private placement memoranda, and the other offering documents. The securities held in Fund accounts may include, among other things, common stock, preferred stock, partnership interests, limited liability company interests, exchange-traded funds, debt securities, and other securities as set forth within the offering documents. The development of an investment strategy is an ongoing process, and the LSV Partnerships' investment strategies and methods may be modified from time to time. There are no material limitations on the investment processes that LSVM may adopt for the LSV Partnerships. Therefore, the investment process may change and evolve. LSVM is not restricted to implementing any specific investment process on behalf of the Funds in allocating to a particular investment or market or any combination of investments. Over time, markets change and LSVM will seek to capitalize on attractive opportunities wherever they appear. Depending on conditions and trends in securities markets and the economy generally, LSVM may pursue other objectives, or employ other strategies or techniques, that it considers appropriate and in the best interest of the Funds.

The Funds' investment objectives are to achieve long-term capital appreciation through value-oriented investing with a hands-on investing approach. LSVM seeks to unlock value in portfolio companies where LSVM believes the stock is undervalued due to poor performance. LSVM often seeks to engage with large shareholders to amplify its ability to effect change and create value through long-term constructive shareholder activism. LSVM expects to invest primarily in small-cap companies (those with a capitalization of less than \$1 billion) that have holding periods of approximately two years.

LSVM employs a bottom-up approach with single-name long ideas in situations where it believes that it can add value through a hands-on approach, and it also selects opportunistic short positions. The Funds build short positions after research suggests that a company is secularly or otherwise challenged and may trade lower than current market price.

LSVM seeks to create a sustainable business with talented professionals and appropriate resources to support the investment program and the operational and non-investment needs of the business and Fund investors. LSVM attempts to maintain a cohesive culture with a focus on training and retention. LSVM intends to treat Fund investors and vendors with respect and to provide transparency and two-way communication with investors on a timely basis.

## **2. Fundamental Method of Analysis**

LSVM attempts to conduct rigorous independent fundamental research, including due diligence and financial analysis, to value businesses, assess management teams and determine the potential upside of an investment. LSVM strives to apply detailed financial modeling and strategic scenario analysis to assess short- and long-term risks and opportunities. The Investment Manager sizes positions based on its view of the risk/reward of the position and the progress LSVM is making in obtaining an ability to effect change within the investment company. LSVM strives to explore all options for long-term value creation in search to find multiple optimal paths to unlock value. LSVM at times will seek inclusive engagement with other investment company shareholders to increase credibility with the companies' management teams, the incumbent Boards and other shareholders. LSVM focuses on opportunities that we believe are deep-value asymmetric risk/reward situations with significant margins of safety. In addition, prior to investment the Investment Manager seeks to assess the fair value, catalysts and exit strategies for our investments. Position sizing will be based on an analysis of the risk/reward, liquidity and potential for activist effectiveness. Once an investment is made, the holding is continuously monitored to endure that the initial rationale for investment remains. If it is determined that the initial reason for investment is no longer valid, LSVM may sell the holding. LSVM will short stocks and bonds on a selective and opportunistic basis in cases where LSVM believes it has an edge that will enable the a Fund to profit on the position.

## **3. Sources of Information**

The main sources of information used by LSVM include financial publications, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases and other sources of information that may be available.

LSVM uses information, reports, and data from various sources, but the investment decisions that LSVM makes on behalf of its clients are based primarily on its own internal research and analysis, as well as the experience of its key personnel. LSVM may obtain advice from financial analysts, attorneys, accountants, and other experts to assist in its investment analysis. In addition, LSVM may obtain research information from third parties, including published reports of companies and other issuers, general economic data and data compilations.

## **4. General Securities Investment Risk of Loss**

All investment programs have certain risks that are borne by the investor. The investment approach employed by LSVM constantly keeps the risk of loss in mind. Similar to other investors, LSVM clients face the following investment risks, which is not an exhaustive list. The Funds' offering documents should be referenced for a more detailed statement of risks.

***Risk of Loss Generally*** In addition, the Funds may utilize such investment techniques as short sales, investments in non-marketable securities, uncovered option transactions, and a highly concentrated portfolio, among others, which could under certain circumstances magnify the impact of any adverse market or investment developments. An investment in the Partnership is speculative and involves substantial risks, including the risk that the entire investment will be lost.

**Market Risk** The price of a security, debt, or other financial instrument may drop in reaction to tangible and intangible events and conditions. External factors cause this type of risk regardless of the particular circumstances that affect a security. For example, political, economic, and social conditions may influence market conditions.

**Interest--Rate Risk** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, fixed rate coupons tend to become less attractive, which in turn may cause the valuation of a particular debt to decline.

**Options Risk** An option is a contract in which the holder (the buyer) pays a specified amount (the premium) to the writer (the seller) to obtain the right, but not the obligation, to buy from the writer (in a call) or to sell to the writer (in a put) a specific asset at an agreed-upon price (the strike price or exercise price) at or before a specified time (the expiration date). The holder pays the premium at inception and has no further financial obligation. The holder of an option will benefit from favorable movements in the price of the underlying asset but is not exposed to corresponding losses due to adverse movements in the value of the underlying asset. The writer of an option will receive fees or premiums but is exposed to losses due to changes in the value of the underlying asset.

**Inflation Risk** When inflation is present, a dollar today will not buy as much as a dollar next year, because the purchasing power of the dollar is eroding at the rate of inflation.

**Volatility Risk** Volatility refers to the amount of uncertainty or risk about the size of changes in the value of a security. High volatility means that the value of a security may potentially be spread over a larger range of values. High volatility means that the price of the security may change dramatically over a short time period in either direction. Low volatility means that the value of a security does not fluctuate dramatically but instead changes at a relatively steady pace over a period of time. Many securities have experienced high volatility in recent years.

**Currency Risk** A security that is not denominated in United States dollars is subject to fluctuations in the value of the United States dollar as against the currency in which the security is denominated. For example, the value of a security denominated in euros will decrease if the dollar strengthens against the euro. This type of risk is also called exchange-rate risk.

**Business Risk** This risk is associated with a particular industry or a particular issuer. For example, an oil production company depends upon a lengthy process of finding, transporting, and then selling oil before the company can generate a profit. As a result, an oil production company carries a higher risk of profitability variance than an electric company, which generates income from a relatively stable customer base that must purchase electricity regardless of the economic environment.

**Liquidity Risk** Liquidity is the ready ability to convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not. Only investors who are financially able to maintain their investment without a need for immediate liquidity should consider an investment with LSVM.

**Financial Risk** Excessive borrowing to finance the operations of a business increases the risk of profitability, because the company is required to repay principal and interest in both good and bad economic times. During periods of financial stress, the inability of a company to meet its loan obligations may decrease the value of its securities and, in some cases, force the company to seek bankruptcy protection.

**B. Material, Significant, or Unusual Risks Relating to Investment Strategies**

**1. Position Concentration Risk**

LSVM may accumulate substantial positions in certain investments and intends to invest the LSVI LP's capital in a small number of core investments. SPV Funds will generally only invest in a single position. The investment technique of concentrating investment positions increases the volatility of investment results over time and may increase the risk that a loss in a position will have a material adverse impact on a Fund's assets. LSVM may hedge Funds' positions to mitigate these risks, but is under no obligation to do so. Hedging transactions may result in a poorer overall performance for a Fund than if a Fund had not engaged in such hedging transaction as a successful hedging activity will depend on a variety of uncertain factors.

**2. Activism Risk**

LSVM may pursue an activist role to effectuate corporate changes in a portfolio company. The capital and time costs involved in such activist investments are dependant upon the circumstances, which are only in part within LSVM's control. In addition, the expenses associated with an activist investment strategy, including potential litigation or other transactional costs, will be borne by the applicable Fund. In many cases, LSVM will ask to be reimbursed for the costs by the underlying company where possible.

Activist strategies employed in respect of the Funds' investments may prove ineffective for a variety of reasons, including: (i) LSVM's inability to identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) LSVM's inability to acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) the presence of corporate governance mechanisms (ie. staggered boards, NOL poison pills, etc.) which may aggravate activism efforts; (iv) management of portfolio companies negative response to LSVM's proposals; (v) opposition of a subject company which may result in litigation and may erode, rather than increase, shareholder value, and (vi) that the market price of a portfolio company's securities do not increase in response to any actions taken by portfolio companies. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Funds, and such regulatory agencies may investigate the participants in a transaction, including the Funds, as to compliance with securities or other laws.

Successful execution of an investment strategy will depend on the cooperation of security holders and others with an interest in the portfolio company. Some security holders may have interests which diverge significantly from those of the LSV Partnership and some of those parties may be indifferent to the proposed changes. Moreover, securities that LSVM believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame LSVM anticipates, even if the strategy is successfully implemented. Even if the prices for a portfolio company's securities have

increased, there is no assurance that the applicable Fund will be able to realize any increase in the price of such securities.

### **3. Due Diligence Limitations**

The due diligence performed by LSVM before investing may not reveal all relevant facts in connection with an investment LSVM may often not be in a position to confirm the completeness, or complete accuracy of information that it does evaluate. In addition, investment analyses and decisions by the Adviser may be undertaken on an expedited basis in order to take advantage of short-lived investment opportunities. There are no complete assurance that LSVM's due diligence will reveal all relevant facts in evaluating investment opportunities. Any failure to identify relevant facts may result in an erroneous investment decision.

### **4. Litigation and Regulatory Risks**

LSVM may determine it necessary to use litigation as a course of action in its activist efforts. In addition, Funds may become parties to lawsuits initiated by third parties, including but not limited to governmental bodies and portfolio companies' management and shareholders. Litigation is unpredictable and no assurance can be provided that the results will be in the Funds' favor. Thus, the Funds may be exposed to the risk of monetary damages or other remedies. Also, as an activist investor, the Adviser is subject from time to time (and especially in the context of a proxy contest) to formal or informal investigations or inquiries by the Securities and Exchange Commission and other governmental and self-regulatory organizations in connection with its activities. Litigation and regulatory investigations may require significant amounts of LSVM's time and may result in expenses to the Funds.

### **5. Inability to Purchase or Sell Securities**

From time to time LSVM or an affiliate may be in possession of material, non-public information concerning the issuer of securities in which a Fund has invested, or in which it intends to invest. The possession of such information may limit the ability of a Fund to buy or sell such securities or other instruments. A Fund may be required to refrain from buying or selling such at times when LSVM might otherwise buy or sell the security. In addition, as a result of voting agreements or other arrangements relating to certain issuers, securities or instruments in which a Fund may be invested, LSVM or its affiliates may also be subject to restrictions on their ability to vote or take other actions with respect to such issuers or securities. In such situations, LSVM may not be able to vote or take other actions with respect to such issuers or securities in the manner that it otherwise would believe to be in the best interests of the Partnership.

### **6. Leverage**

LSVM at times uses financing extended by a broker-dealers to leverage a Fund's portfolio, therefore a Fund may be subject to variations in the amount of margin required to support a position, variations in the borrowing rate to finance such position or a variety of other factors controlled by the broker-dealer. A Fund could be forced to liquidate its portfolio on short notice to meet its financing obligations. A forced liquidation at distressed prices could result in Fund losses.

Also any use of leverage will magnify the volatility of changes in the value of the investments of a Fund that would have been the case absent such leverage. The cumulative effect of the use of leverage by the Fund in a market that moves adversely to their investments could result in losses to a Fund that would be greater than if the Fund were not leveraged.



**Item 9**

**DISCIPLINARY INFORMATION**

This item is not applicable.

## Item 10

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

#### A. Broker-Dealer Registration

LSVM and its management are not registered as a broker-dealer nor have any application pending to register with the SEC as a broker-dealer or registered representative.

#### B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status

LSVM and its management persons are not registered as, and do not have any application to register as a, futures commission merchant or associated persons of a futures commission merchant. LSVM is exempt from registering as commodity pool operator and as a commodity trading adviser with the Commodity Futures Trading Commission.

#### C. Other Financial Industry Activities and Affiliations

Neither LSVM nor any of its employees have any other disclosable industry activities or affiliations.

## Item 11

### **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

#### A. Code of Ethics

The supervised persons of LSVM have committed to a written code of ethics. This code of ethics requires LSVM and its supervised persons to comply fully with all applicable laws, including federal securities laws, in conducting investment advisory services and related activities. The chief compliance officer of LSVM is responsible for overseeing adherence to the code of ethics. LSVM will provide a copy of the code of ethics or compliance manual to any investor or prospective investor upon request.

The LSVM code of ethics is based on the principle that LSVM has a fiduciary obligation to its clients. In this fiduciary capacity, LSVM and its personnel are required to place the interests of clients before their own interests and the interests of persons and entities that may be related to them. LSVM seeks to avoid conflicts of interest with its clients and will take appropriate steps consistent with its code of ethics to resolve any conflicts of interest that may arise.

The LSVM code of ethics and other compliance procedures establish policies and procedures in a number of areas, including the treatment of confidential proprietary information, recordkeeping, conflicts of interest, and personal securities transactions. LSVM also maintains insider trading policies and procedures that are designed to prevent the misuse of material, non-public information. LSVM personnel are required to certify their compliance with the code of ethics and the insider trading policies on a periodic basis.

#### B. Violations of Law

The LSVM chief compliance officer conducts compliance reviews at least annually and monitors for indications of potential violations of law or the code of ethics on a monthly basis. In addition, LSVM has a written policy that requires personnel who become aware of a compliance risk to report the possible violation promptly to the chief compliance officer or outside counsel. LSVM would investigate any such report and would not retaliate against someone who makes a report.

The code of ethics requires LSVM to administer discipline to maintain the quality of services that it provides to clients by encouraging legal and appropriate behavior and by deterring illegal and inappropriate behavior. Disciplinary actions may include a written warning, fines, suspension of employment, and termination of employment.

#### C. Participation or Interest in Client Transactions

LSVM or one or more of our officers, directors, members, managers, employees, and agents may from time to time have a direct or indirect interest in a security that is purchased, sold, or otherwise traded in client accounts and may effect transactions in the security for client accounts that may be the same as or different from the actions that LSVM or such a related

person may take with respect to its or his account.

#### D. Personal Trading

LSVM permits its supervised persons to purchase and sell securities for their personal accounts and for the accounts of persons and entities related to them, so long as the supervised persons are in compliance with the code of ethics.

The LSVM code of ethics requires supervised persons to obtain clearance in advance from the chief compliance officer with respect to all proposed securities trading for their personal accounts and for the accounts of related persons for any companies with a market capitalization under one billion dollars, including securities offered in an initial public offering or a limited offering. The code of ethics also requires supervised persons to disclose to the chief compliance officer all of their reportable personal securities holdings and to provide the chief compliance officer with quarterly holdings and transaction reports. In addition, LSVM has a written insider trading policy that is designed to prevent the improper use of material nonpublic information.

The LSV Partnerships may from time to time have a direct or indirect interest in a security that is purchased, sold, or otherwise traded in an account of a related person or management of LSVM. LSVM personnel may not generally trade or purchase positions within companies in which the LSV Partnerships also have an interest. LSVM related persons or personnel that also serve on the board of directors of companies whose securities are held by a Fund may personally receive board compensation in the form of securities in the company. LSVM personnel and related parties are also permitted to trade stock of companies that a Fund may own if the securities were acquired prior to becoming an affiliate or personnel of LSVM. Generally, to reduce any conflict of interest, personnel of LSVM are not permitted to hold positions in small capitalization companies without seeking prior permission and meeting other parameters.

## Item 12

### **BROKERAGE PRACTICES**

#### A. Selecting Brokerage Firms

LSVM has full discretion and authority over its client accounts, including the authority to select a broker--dealer to execute a particular transaction and to negotiate the rate of commission payable for these services. A majority of LSVM securities transactions on behalf of clients are executed on behalf of the Funds by Williams Trading, LLC with a variety of third party broker-dealers. Morgan Stanley & Co. LLC is the prime broker for the Funds and is the primary custodian for most of the Funds' assets. LSVM limits the broker-dealers that it uses to those that it believes to provide best execution for client transactions. In some cases, federal and state laws (such as the Employee Retirement Income Security Act of 1974) may limit or restrict the selection of broker-dealers.

#### B. Best Execution

The duties of any prime broker may include clearance and settlement of a Fund's trades, margin financing, stock lending and borrowing, non-U.S. exchange facilities, effecting transactions on behalf of a Fund periodically, maintaining any Fund custody accounts and maintaining a Fund's funds and securities, either in accounts in the Fund's own name, or in accounts in the LSV GP or LSVM name as agent for the Fund and any other accounts managed by LSV GP or LSVM from time to time.

The broker-dealers utilized by Funds' will be selected by the LSV GP. The LSV GP and LSVM do not need to solicit competitive bids, and neither has an obligation to seek the lowest available commission or other transaction cost. In selecting brokers, dealers and counterparties for the Funds, the LSV GP and LSVM may consider such factors as price, execution capabilities, reputation, infrastructure, reliability, financial resources, quality of research products or services and other value-added services. In the normal course of business, the LSV GP and LSVM may enter into commission arrangements whereby the relevant broker, dealer or counterparty agrees to set aside a proportion of the commission earned on transactions to use to discharge the cost of certain additional services relating to the execution of transactions on behalf of the customers of the LSV GP and LSVM and the provision of investment research provided to them. The LSV GP and LSVM intend to operate, to the extent applicable, within the safe harbor created by Section 28(e) of the Exchange Act. In doing so, the LSV GP may cause the Partnership to pay higher commissions than those charged by brokers that do not provide such services or benefits. To the extent that the LSV GP or LSVM selects broker-dealers to effect transactions with or for the Funds, the LSV GP and LSVM, subject to their overall duty to obtain best execution of LSV Partnership transactions, will have authority to and may consider the full range and quality of the services and products provided by various broker-dealers, including factors such as the ability of the brokers to execute transactions efficiently, the responsiveness to the LSV GP and LSVM's instructions, its facilities, reliability and financial responsibility, and the value of any research or other services or products they provide. As long as the services or other products provided by a particular broker (whether directly or through a third party) qualify as "brokerage and research services" within the meaning of Section 28(e) of the Exchange Act and regulations thereunder, and the LSV GP and LSVM determine in good faith that the amount of commission charged by such broker is reasonable in relation to the value of such brokerage and research services, the LSV GP and LSVM

may utilize the services of that broker to execute transactions for the Funds on an agency or riskless principal basis even if (i) the Fund would incur higher transaction costs than it would have incurred had another broker been used and (ii) the Fund does not necessarily benefit from the research services or products provided by that broker.

LSV Partnerships' transactions can be expected to generate brokerage commissions (or dealer markups and markdowns) and other compensation, all of which the LSV Partnerships, not the LSV GP or the LSVM, will be obligated to pay. The LSV GP and LSVM have complete discretion in deciding what brokers and dealers the Funds will use and in negotiating the rates of compensation the Funds will pay. In addition to using brokers as agents and paying commissions, the Funds may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

To the extent that securities are purchased in non-U.S. markets, a broker would typically be permitted to use the services of its sub-custodians located in the country in which the securities are purchased. Such sub-custodians would typically maintain custody of the securities until such time as they are sold, at which point uninvested proceeds would be transferred back to the Funds' accounts at the broker.

#### C. Directed Brokerage

LSVM does not permit a client to direct LSVM to execute transactions through a specified broker-dealer.

#### D. Conflicts of Interest

Actual or apparent conflicts of interest may arise when a LSVM manager has day-to-day management responsibilities with respect to more than one client account. Specifically, a portfolio manager who manages multiple Funds may be presented with the following conflicts: (i) the management of multiple accounts may cause a portfolio manager to devote unequal time and attention to the management of each account; and (ii) if a portfolio manager identifies a limited investment opportunity that may be suitable for more than one account, each account may be unable to take full advantage of the opportunity due to an allocation of filled purchase or sale orders across all eligible accounts. To deal with these situations, LSVM has adopted procedures for allocating portfolio transactions across multiple accounts.

LSVM has compliance procedures that are designed to address these types of conflicts. However, there is no guarantee that these procedures will detect every situation in which a conflict may arise.

#### E. Trade Error Policy

On occasion, LSVM may experience errors with respect to trades made on behalf of client accounts. LSVM endeavors to detect trade errors prior to settlement and to correct them in an expeditious manner. LSVM may reimburse client accounts for net losses directly due to uncorrected trade errors attributable to LSVM personnel.

#### F. Soft Dollars

Soft dollars are used only for research related expenses, which include, but are not limited to, data service providers (Bloomberg, etc.), outside research providers, trade magazines, and research-related technology. All soft dollar expenditures are compliant with Section 28(e) of the Securities Exchange Act of 1934.

#### G. Order Aggregation

LSVM may generally aggregate for block execution multiple orders for the purchase and sale of the same security on behalf of several clients for accounts held by a particular custodian. Securities purchased in an aggregated order receive the average price obtained on the order. When aggregating transactions for block execution, LSVM makes a good-faith determination that the participating accounts will benefit from the aggregation, that aggregation is consistent with the duty of LSVM to seek best execution for its clients, and that aggregation is permitted by the investment management agreement between LSVM and each Fund that participate in the aggregation.

## **Item 13**

### **REVIEW OF ACCOUNTS**

#### **A. Periodic Reviews**

LSVM reviews securities transactions on a daily, weekly and quarterly basis. These reviews are generally conducted by LSVM principals.

#### **B. Review Triggers**

Client inquiries, changes in the general market outlook, changes in the tax laws, new investment information, changes in the financial situation of a company or sector generally, changes in the opinions of the LSVM portfolio manager on specific issues, or any unusual activity or special circumstance may prompt more frequent reviews of some or all Funds or client accounts.

#### **C. Regular Reports**

LSVM sends a quarterly letter to each investor that discusses market conditions and the investment outlook, along with a monthly statement indicating the investor's account value and performance.



## Item 14

### **CLIENT REFERRALS AND OTHER COMPENSATION**

#### A. Referrals Out

LSVM does not accept referral fees or other remuneration when it refers a prospect or client to other professionals.

#### B. Incoming Referrals

Park Hill Group, LLC and its affiliates (“Park Hill”) have been retained as a non-exclusive placement agent for introducing potential investors to LSVI LP. Frontier Solutions, LLC and its affiliates (“Frontier”) have been retained as a non-exclusive placement agent for introducing potential investors to LSVI LP. Each of Park Hill and Frontier receives a portion of the management fees otherwise paid to LSVM in connection with investors introduced to LSVI LP by Park Hill and Frontier, respectively. LSVM may enter into arrangements with other placement agents for introducing potential investors to the Funds or other products. Except as described above, neither LSVM nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

## **Item 15**

### **CUSTODY**

LSVM is deemed to have constructive custody of client accounts because it is permitted to debit its fees directly and because LSV GP is an affiliate of LSVM. All investor funds and securities are held at qualified custodians. These custodians provide account statements at least quarterly. The account statements are sent directly to each investor at his address of record.

## **Item 16**

### **INVESTMENT DISCRETION**

LSVM accepts discretionary authority to manage the Funds and has entered into investment management agreements pursuant to which such authority was granted. LSVM has the authority to determine the securities to be bought or sold and the amount of the securities to be bought or sold. LSVM decisions and advice are subject to the applicable offering documents.

## **Item 17**

### **VOTING CLIENT SECURITIES**

#### **Proxy Voting**

LSVM has adopted written proxy-voting policies and procedures. LSVM has the exclusive right to vote proxies on the LSV Partnerships' behalf. Proxy-voting policies are designed to ensure that proxies are voted in the best interests of the Funds. To the extent that a conflict of interest arises regarding a specific proxy vote within a sufficient amount of time before the vote, the investor committee will determine how to vote the proxy for the best interest of the relevant Fund. LSVM proxy-voting procedures are available upon request by any client or investor. A client or investor may also request in writing a record of how LSVM has voted proxies for particular portfolio companies since it became registered with the SEC.

**Item 18**

**FINANCIAL INFORMATION**

This item is not applicable.

**Item 19**

**REQUIREMENTS FOR STATE-REGISTERED ADVISORS**

This item is not applicable.

## **BROCHURE SUPPLEMENT**

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### Education and Business Standards

LSVM considers relevant business experience to be one of the most important criteria in selecting persons to provide investment advice to and research for its clients. LSVM does not have specific hiring guidelines but generally requires at least a college degree. LSVM seeks to hire personnel whose educational and professional backgrounds are compatible with the functions that they perform. Absent suitable business experience, LSVM seeks to entrust investment advisory and research responsibilities to personnel with academic backgrounds, including advanced training, that reflect the intelligence necessary to perform the assigned functions.

### **Item 2**

#### **EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

##### Educational Background and Business Experience

*Jeffrey E. Eberwein*

Born 1970

The Wharton School, University of Pennsylvania, MBA

University of Texas at Austin, BBA with Honors

Mr. Eberwein is the Chief Executive Officer and a Manager of LSVM. From 2009 to 2011, Mr. Eberwein was a portfolio manager for Soros Fund Management. From March 2005 to September 2008, Mr. Eberwein was a Portfolio Manager and Partner at Viking Global Investors. He has been involved in the securities industry throughout the 23 years of his Wall Street career.

### **Item 3**

#### **DISCIPLINARY INFORMATION**

This item is not applicable.

### **Item 4**

#### **OTHER BUSINESS ACTIVITIES**

This item is not applicable.

### **Item 5**

#### **ADDITIONAL COMPENSATION**

While serving on boards of directors of companies that the Funds are invested in, LSVM personnel may receive compensation for their service. In these cases, LSVM's policy is to pass

the compensation through to the Funds.

#### **Item 6**

##### **SUPERVISION OF LSVM PERSONNEL**

Mr. Eberwein supervises all LSVM personnel. All advice provided to LSVM clients regarding the securities to be purchased and sold for client accounts is provided by Mr. Eberwein. Questions relating to the supervision of LSVM personnel may be addressed to Mr. Eberwein, as CEO or Kyle Hartley as COO by telephone at 203.489.9500 or via email at [kh@lonestarvm.com](mailto:kh@lonestarvm.com).

#### **Item 7**

##### **REQUIREMENTS OF STATE REGISTERED ADVISORS**

This item is not applicable.