

**Item 1 – Cover Page**

**Westport Asset Management, Inc.**

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**(203) 227-3601**

**March 31, 2017**

This Brochure provides information about the qualifications and business practices of Westport Asset Management, Inc. If you have any questions about the contents of this Brochure, please contact us at (203) 227-3601. 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.

Westport Asset Management, Inc. is a registered investment adviser. Registration with the SEC as an investment adviser does not imply any level of skill or training.

Additional information about Westport Asset Management, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This Brochure, dated March 31, 2017, updates the Brochure dated March 31, 2016 (the “2016 Brochure”). This Brochure contains one material change from the 2016 Brochure. An Affiliated Adviser, Westport Advisers LLC, is withdrawing its registration with the SEC.

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#### **Item 4 – Advisory Business**

- **Westport Asset Management, Inc.’s advisory business includes management of investment advisory accounts and providing investment supervisory services.**

Westport Asset Management, Inc. (WAMI) was established in 1983 and engages in an investment advisory business that focuses on investments in small capitalization United States equities using a “value” investment strategy. WAMI serves primarily institutional and some high-net-worth individual clients, pension and profit sharing plans, charitable organizations and private funds. WAMI’s management of client portfolios is on a fully discretionary basis and the firm actively manages those portfolios to maximize total returns subject to each client’s risk profile and investment guidelines.

WAMI is provided with investment guidelines by its clients, which may impose investment restrictions on portfolio holdings concerning: (1) exposure to a single security, (2) exposure to a specific industry sector, (3) market capitalization of the portfolio holdings, and (4) prohibitions from holding securities that meet specific client defined characteristics. WAMI does not manage any wrap program assets.

WAMI manages portfolios containing mostly equity securities seeking capital appreciation in excess of an agreed upon benchmark over the long-term. Investor funds are deposited in either a bank custodian account or with a brokerage firm. As of December 31, 2016, WAMI managed approximately \$200 million on a discretionary basis. WAMI does not currently provide investment advice on a non-discretionary basis.

Andrew J. Knuth, WAMI’s Chairman and founder owns a 90% controlling interest in WAMI.

WAMI does not consider the above services “financial planning” or any other similar term.

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

The specific manner in which fees are charged by WAMI is established in a client’s written agreement with WAMI. The typical management fee for institutional and high-net-worth clients is 1%. However, fees are negotiable and some clients have negotiated performance-based fees. With respect to its private fund client, Riverside Associates LP-1, which is organized as a limited partnership, the private fund’s general partner, who is an owner of WAMI, receives a negotiated performance-based fee. Clients are billed and fees are payable quarterly in arrears at the end of each calendar quarter based on the market value of the account at the quarter-end. Accounts initiated or terminated during a calendar quarter will be charged a pro-rated fee for the applicable portion of the calendar quarter and the client will be billed following the termination of the

account. Terminated accounts with performance-based fees are billed a pro-rated partial-year performance fee following the termination of the account.

WAMI believes that its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees than those charged by WAMI.

WAMI's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to WAMI's management fee, and WAMI does not receive any portion of these commissions, fees, and costs.

Please see Item 12 of this Brochure for a further discussion of WAMI's brokerage practices, including the factors that WAMI considers in selecting or recommending broker-dealers for *client* transactions and in determining the reasonableness of such broker-dealers' compensation (*i.e.*, commissions).

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

In some cases, WAMI has entered into performance- or incentive-based fee arrangements with qualified clients. Such fees are subject to individualized negotiation with each such client. At year-end 2016, WAMI did not have an institutional client that used incentive-based fee schedules as opposed to the asset-based fees WAMI normally charges. Incentive-based fees are paid at the end of the incentive year and each of the fee schedules includes refund and/or termination clauses as set out in the respective client's investment advisory agreement. The termination clauses typically include a 30-day notice provision applicable to each party. Incentive-based fees are charged in accordance with the requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended, and WAMI will not enter into such fee arrangements with clients who do not satisfy the eligibility criteria set forth in that Rule. Because WAMI has been compensated based in part on capital appreciation in these arrangements, there may have been an incentive for WAMI to make investments that are riskier or more speculative for those clients with incentive-based fees than would be the case in the absence of such a compensation framework. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. It is WAMI's policy to not favor any client account or outside account over any other client account or outside account.

WAMI does not receive a performance-based fee in connection with its advisory services as they relate to its private fund client, Riverside Associates LP-1. As stated above, the general partner of this client, who is also an owner of WAMI, receives a negotiated performance-based fee.

WAMI has implemented policies and procedures that are designed to ensure that all clients are treated fairly and equally, and to prevent the conflict described above from influencing the allocation of investment opportunities among clients. For more information regarding WAMI's Trade Allocation Policies and Procedures, please see Item 12.

## **Item 7 – Types of Clients**

### ***Types of Clients***

WAMI provides portfolio management services to corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, corporations and other business entities, private funds and high-net-worth individuals.

Minimum account size is generally \$10 million although WAMI may elect to waive or modify this minimum at its sole discretion.

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

WAMI's investment process has been in place since the establishment of the firm. Our investment philosophy is a modified form of bottom-up value investing that combines classic value investment with forward-looking business analysis. This approach combines low valuation, a value attribute, with improving earnings and cash flow, a growth attribute. This variation of value investing may reduce downside risk while offering the potential for capital appreciation as a stock gains favor among other investors and its price increases. The firm's investment focus is on companies selling at a substantial discount to their intrinsic value. These companies are often out of favor with Wall Street due to transitory problems. The investment process begins with the identification of change in a company's products, operations and management. In small capitalization companies, dynamic change in products, operations and management tends to be material and may create misunderstanding in the marketplace and result in the company's stock becoming undervalued. Once change is identified, the portfolio managers evaluate the company from a number of perspectives including what the market is willing to pay for the stock of comparable companies or what a strategic buyer would pay for the entire company. The investment evaluation process also includes fundamental research, company visits and management assessment. In the overall assessment, the portfolio managers try to identify stocks that have a greater upside potential than risk over an 18-to-24-month

period. The portfolio managers may exceed 5% for a position if the fundamentals are compelling. Sector/industry diversification is a residual of the security selection process. However, WAMI maintains a maximum target industry exposure of 25%; individual clients may include specific limits to individual stock positions and industry exposures which are included in their investment guidelines. WAMI may invest its client accounts in a comparatively small number of companies, as compared to other investment managers' client portfolios. Investing in a comparatively small number of companies can increase the potential adverse effects to WAMI's client accounts caused by a decline in the value of any single company in which the client invests.

Investments in smaller capitalization companies may involve greater risks than investments in medium and large capitalization companies due to comparatively limited product lines, markets and financial and managerial resources. Smaller capitalization companies may have more volatile stock prices and the potential for greater declines in stock prices in response to selling pressure. Additionally there is the risk that the value style followed by the portfolio managers may be out of favor for a period of time, that the market will not recognize a security's intrinsic value for a long time, or that a stock judged to be undervalued may actually be appropriately priced. Historically, value stocks have performed best during periods of economic recovery.

Investing in the stock market is risky because equity securities fluctuate in value, often based upon factors unrelated to the intrinsic value of the issuer. These issues may be due to political, economic or general market circumstances. Because the portfolio managers have a preference for concentrated portfolios, there is a risk that investing in a comparatively small number of companies can increase the potential adverse effects to the portfolios caused by declines in the value of any single company. Further, there is a chance that poor security selection by the portfolio managers may cause the portfolio to underperform relevant benchmarks or other portfolios with a similar investment objective.

WAMI's clients should understand that they could lose some of their investment and should be prepared to bear the risk of such potential losses.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose material facts regarding any legal or disciplinary events that would be material to your evaluation of WAMI or the integrity of WAMI's management. WAMI has no information applicable to this Item.

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

WAMI is not actively involved in any business other than giving investment advice. We do not sell products or services other than investment advice to clients.

WAMI also acts as investment adviser for a private fund, Riverside Associates LP-1 – which is exempt from registration relying on Section 3(c)(1) of the Investment Company Act of 1940 as amended (“1940 Act”).

From time to time, potential conflicts of interest may arise among a portfolio manager’s management of the client’s accounts. Because of their positions with client accounts, the portfolio managers know the size, timing and possible market impact of an account’s trades. It is theoretically possible that the portfolio managers could use this information to the advantage of some accounts to the possible detriment of other accounts. An investment opportunity may be suitable for a number of client accounts, but may not be available in sufficient quantities for all the client accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held in client accounts. Whenever decisions are made to buy or sell securities held by client accounts simultaneously, WAMI or the portfolio manager may aggregate the purchases and sales of the securities and will allocate the securities transactions in a manner that he believes to be equitable under the circumstances. As a result of the allocations, there may be instances where all client accounts will not participate in a transaction.

WAMI has implemented specific policies and procedures (e.g., The Code of Ethics and Trade Allocation Policies and Procedures, discussed below in Items 11 and 12, respectively) to address potential conflicts that may arise in connection with the management of client accounts.

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

WAMI, also referred to herein as “Westport,” has adopted a Code of Ethics for all the firms’ Access Persons (as that term is defined in The Code of Ethics) which, among other things, sets forth Westport’s high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All Access Persons at Westport must acknowledge the terms of the Code of Ethics annually, or as amended. You may obtain a copy of Westport’s Code of Ethics upon request. Our contact information appears on the cover page of this Brochure.



## ***PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS***

In order to ensure that Westport and its Access Persons (including, trustees, officers and employees) enter into any personal securities transactions in a manner consistent with their fiduciary duties and to prevent conflicts of interest, both potential and real, Westport has adopted a Code of Ethics in accordance with the federal securities laws. In accordance with the Code of Ethics' pre-clearance and pre-approval procedures, Westport and its "Access Persons" may purchase and sell securities that are also recommended to clients.

The Code of Ethics generally prohibits Access Persons from purchasing or selling securities that are being purchased or sold, or are being considered for purchase or sale, by a client that day.

No Access Person may engage in any personal securities transactions, including transactions in equities, ETFs, IPOs and limited offerings, "covered securities", without obtaining pre-clearance in the form of prior written approval from a Westport Principal or CCO. The pre-clearance requirement is not applicable to (1) purchases or sales effected in any account over which the Access Person has no direct or indirect influence or control or in any account which is managed on a discretionary basis by a person other than such Access Person and with respect to which such Access Person does not in fact influence or control such transactions; (2) purchases or sales of non-equity securities which are not eligible for purchase or sale by any person or entity to which WAMI provides investment advisory services ("Westport Client"), unless such securities are of a type held in a Westport Client account or being contemplated for purchase for a Westport Client account. (A security in the same classification within the capital structure as that held in a Westport Client account at Westport would require pre-clearance; *e.g.*, two debt securities of an issuer in different series.); (3) purchases or sales which are non-volitional on the part of the Access Person; (4) purchases which are part of an automatic dividend reinvestment plan; (5) purchases effected upon the exercise of rights or options issued by an issuer pro rata to all holders of a class of its securities, to the extent such rights or options were acquired from such issuer, and sales of such rights or options so acquired; and (6) any transaction, or series of related transactions, involving 500 shares or less in the aggregate, if the issuer has a market capitalization (outstanding shares multiplied by the current price per share) greater than \$2 billion; and, (7) any transactions in accounts in which an Access Person has a Beneficial Ownership interest in a Reportable Security solely by reason of an indirect pecuniary interest described in Rule 16a-1(a)(2)(ii)(B) or (C) under the Securities Exchange Act of 1934, as amended ("Exchange Act") provided that the CCO has full access on a real time basis to the trading activities and records of such account and such account is subject to the Westport Trade Allocation Policies and Procedures.

Additionally, the Code of Ethics mandates initial holdings, quarterly and annual reporting of transactions in covered securities by Access Persons of Westport. It also requires strict confidentiality with regard to any client transactions or potential transactions

In addition to the Code of Ethics, Westport has adopted a comprehensive insider trading policy to identify and prevent the misuse of material, non-public information that applies to all directors, officers and employees of Westport entities.

WAMI's portfolio managers and Access Persons may purchase or sell, directly or indirectly, securities that are recommended to or purchased and sold for clients. However, Westport's Code of Ethics prohibits such transactions of the security that is (1) being considered for purchase or sale by a client that day; or (2) being purchased or sold by a client that day. Westport Principals must approve all purchases and sales of Reportable Securities (as that term is defined in The Code of Ethics) for Access Persons prior to their execution.

## **Item 12 – Brokerage Practices**

In selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*i.e.*, commissions), WAMI considers the following:

### ***Best Execution Policies and Procedures***

In placing orders for the purchase and sale of securities for client accounts and selecting broker-dealers to effect these transactions, WAMI seeks prompt execution of orders at the most favorable prices reasonably obtainable. In doing so, WAMI will consider a number of factors, including, but not limited to, the overall direct net results to the client (including commissions, which may not be the lowest available, but which ordinarily will not be higher than the generally prevailing competitive rate), the financial strength and stability of the broker-dealer, the speed and efficiency with which the transactions are effected, the broker-dealer's ability to handle high-volume transactions without undue market impact, the certainty of execution, the availability of the broker-dealer to stand ready to execute possible difficult transactions in the future, and the quality of research and investment services provided by broker-dealers who effect, or are parties to, portfolio transactions for client accounts or the clients of Westport.

Such research and investment services may include information on: the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting the securities of certain client accounts, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. Such research services may be received from broker-dealers in the form of written reports, telephone contacts, or personal meetings with security analysts. In addition, such research services may be provided by broker-dealers in the form of access to various computer-generated data and software, as well as support and maintenance costs for such computer-generated data and software. Research services may also be provided by way of meetings arranged with corporate and industry spokespersons, economists, academicians, and government

representatives. In some cases, research services may be generated by third parties but are provided to WAMI by or through broker-dealers. Research services furnished by broker-dealers through whom WAMI effects securities transactions may be used by WAMI and its affiliates in connection with their investment activities.

To the extent that research services of value are provided by broker-dealers, WAMI may be relieved of the expenses that it might otherwise bear in providing or obtaining the same or a comparable research service from its own resources. WAMI may allocate brokerage commissions for research services that are also available for cash, where appropriate and permitted by law.

In order to be assured of continuing to receive services considered of value to its clients, WAMI has adopted policies and procedures embodying the concepts of Section 28(e) of the Exchange Act. Section 28(e) provides a safe-harbor permitting an investment adviser to cause an account to pay commission rates in excess of those another broker-dealer would have charged for effecting the same transaction, if the Registrant determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. This determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of WAMI with respect to the accounts over which it exercises investment discretion. Thus, such research furnished by broker-dealers may be used in connection with accounts other than those that pay commissions to the broker-dealers providing the research. Conversely, broker-dealers furnishing such services may be selected for the execution of transactions of other accounts. WAMI does not specifically attempt to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits generated. However, WAMI believes that there is generally a correlation between benefits received and credits generated among client accounts, given the similarity of the mandates it manages for clients (i.e., in a small-capitalization value equity strategy).

Commission rates are established pursuant to negotiations with the broker-dealer based on the quality and quantity of execution services provided by the broker-dealer in light of generally prevailing rates. WAMI's policy allows it to pay higher commissions to broker-dealers for particular transactions than might be charged if a different broker-dealer had been selected on occasions when, in WAMI's opinion, this policy furthers the objective of obtaining the most favorable price and execution. In addition, WAMI is authorized to pay higher commissions to broker-dealers on brokerage transactions for client accounts in order to secure research and investment services described above. For this reason WAMI could be deemed to have an incentive to select broker-dealers based on the value of the research services provided as opposed to the quality of execution and price given to clients. The actual allocation of brokerage business may vary from year to year, depending on WAMI's evaluation of all applicable considerations. In no event will WAMI make binding commitments as to the level of brokerage commissions allocated to a specific broker. A broker is not excluded from receiving business because it has

not been identified as providing research services. The investment information and services received from brokers may be used by Westport in servicing all of Westport's clients' accounts, but not all such information and services may be used by Westport in connection with the client whose soft dollar credits were used to pay for the service. Westport believes that such an allocation of brokerage business helps its clients obtain research and execution capabilities and provides other benefits to its clients.

The relationships with brokerage firms that provide soft dollar services to Westport may influence Westport's judgment in allocating brokerage business and may create conflicts of interest, both in using the services of these to brokers to execute its clients' brokerage transactions, and in allocating the costs of mixed-use products between their research and non-research uses. The brokerage fees paid by Westport's clients benefit Westport at the expense of its clients to the extent that soft dollars are used to pay Westport's expenses that are not otherwise reimbursable by those clients. Westport believes that these relationships are beneficial to it and its clients, but its clients' transactions executed through these firms or any other brokerage firm may or may not be at the best price otherwise available. Westport will make a good-faith effort to allocate the costs of such products between their research and non-research uses and use soft dollars to pay only for the portion allocated to research uses.

### ***Brokerage for Referrals***

WAMI does not consider referrals in selecting or recommending broker-dealers.

### ***Directed Brokerage***

Agreements with clients may authorize WAMI to select brokers or dealers that will execute the purchases and sales of portfolio securities. In limited instances, WAMI will accept direction from clients as to which broker or brokers is/are to be used. Any such direction must be in writing. Clients who direct WAMI to use a particular broker to execute transactions for their accounts should be aware that, in so doing, they may adversely affect WAMI's ability to, among other things, negotiate commissions or obtain volume discounts on aggregated orders or to obtain best price and execution, by, for example, executing over-the-counter trades with the market-makers for such securities. Directed transactions may not be combined for execution purposes with orders for the same securities for other accounts that WAMI manages and may be placed at the end of the batched trading activity for a particular security. Client directed brokerage may result in brokerage offsets. Brokers will apply such offsets to pay third party expenses incurred by the client, to the extent directed to do so by the client. Under no circumstances will WAMI be a recipient of the offset.

Where brokerage has not been directed by a client to a specific broker, purchases and sales of securities on a securities exchange are effected through broker-dealers who charge a commission for their services. Brokerage commissions on U.S. securities exchanges are subject to

negotiation between WAMI and the broker-dealer. In the over-the-counter market, securities are sometimes traded on a “net” basis with dealers acting as principal for their own accounts without a stated commission, although the price of the security usually includes a profit to the dealer. However, in most cases, WAMI does trade NASDAQ securities with broker-dealers who are acting on an agency basis and a commission is added to such trades. In underwritten offerings, securities are purchased at a fixed price which includes an amount of compensation to the underwriter, generally referred to as the underwriter’s concession or discount. On occasion, certain money market instruments may be purchased directly from an issuer, in which case no commissions or discounts are paid.

### ***Trade Allocation Policies and Procedures***

When decisions are made to purchase or sell the same securities simultaneously for a number of client and other accounts, WAMI may aggregate into a single trade order (a “bunched” trade) several individual contemporaneous client and other trade orders for a single security if it deems this to be appropriate and in the best interests of the client accounts involved. Bunched trades may be used to facilitate best execution, including negotiating more favorable prices, obtaining more timely or equitable execution, or reducing overall commission charges. Accounts that are eligible to purchase shares in initial public offerings may participate in aggregated orders for such shares.

WAMI seeks to aggregate trade orders in a manner that is consistent with its duty to: (1) seek best execution of client orders, (2) treat all clients fairly, and (3) not systematically advantage or disadvantage any single client.

When an aggregated order is filled in its entirety, each participating client and other account will participate at the average share price for the aggregated order, and transaction costs shall be shared pro rata based on each account’s participation in the aggregated order. If an order cannot be completely filled and the investment opportunity is determined to be equally suitable and appropriate for more than one account, allocations will generally be made pro rata, subject to rounding to achieve round lots, based upon the initial amount requested for an account participating in the aggregated order. Each account participating in a particular aggregated or “bunched trade” will receive the share price with respect to that aggregated order or, as appropriate, the average share price for all executed “bunched” trades on that trading day. WAMI may allocate on a basis other than pro rata, if, under the circumstances, such other method of allocation is reasonable, does not result in any improper or undisclosed advantage or disadvantage to other accounts, and results in fair access over time to trading opportunities for all eligible managed accounts. For example, WAMI may identify investment opportunities that are appropriate for certain accounts and not others, based on such factors as investment objectives, style, risk/return parameters, regulatory and client restrictions, tax status, account size, sensitivity

to turnover, available cash and cash flows. Consequently, WAMI may decide it is more appropriate to place a given security in one account rather than another account.

Other non-pro rata methods include rotation allocation or random allocation. Alternative methods of allocation are appropriate, for example, when the transaction size is too limited to be effectively allocated pro rata among all eligible accounts.

### ***Cross Trading Policies and Procedures***

“Cross trading” means the purchase or sale of securities between various client accounts for the benefit of the accounts involved in the transactions. Cross trades may be triggered by a variety of events that may include, but are not limited to, account re-balancing caused by market-related growth, account withdrawals or liquidations at client direction, additions to small positions already held in an account to reach certain percentage of account goals, or liquidation of small positions to re-deploy client assets. The use of cross trading, when appropriate, can minimize various costs, including brokerage commissions, market price impact, custody fees and transfer taxes.

WAMI does not engage in “agency” cross trades in which it would be considered “acting as a broker” within the meaning of Section 206(3) of the Advisers Act since it does not receive compensation, other than its regular advisory fees, for effecting cross trades between advisory clients.

However, from time to time WAMI may find it advantageous to their clients to engage in cross trading to the extent permitted by applicable laws and regulations. In a cross-trade transaction, WAMI would cause a client account to purchase or sell securities from or to, as the case may be, another client account advised by WAMI. Accounts subject to the Employee Retirement Income Security Act of 1974 (“ERISA”) are permitted to engage in such cross-trades, subject to account specific authorization agreements.

WAMI does not cross trade fair valued securities, private placement securities, securities for which no market price can be readily ascertained, or securities that have not traded during the past five business days on its principal exchange (unless such cross trade is approved by WAMI’s Compliance Officer). They may, when appropriate and under certain conditions, cross trade illiquid securities in one account with another account.

### ***Cross Trades Between Private Accounts***

WAMI may engage in cross trading for their private clients. Such cross trades are arranged through an unaffiliated broker, who is generally paid a commission or small administrative fee for its services. WAMI does not receive any compensation, other than their usual investment advisory fee, when they effect a cross trade for their clients.

In accordance with their fiduciary duty, WAMI seeks best price and execution for all cross trades by ensuring that the price at which such trades are executed is the current market price as of the time the transaction is made. If a commission is charged by the executing broker, such commission shall be nominal and the total cost of the transaction shall be split between the accounts involved.

### ***Cross Trades Involving an ERISA Account***

WAMI may engage in cross trading between an ERISA account and an account that is not an ERISA account (such as a Fund or a private client account). Such trades are governed by the requirements of Section 408(b)(19) of ERISA, Section 4975(d)22 of the Internal Revenue Code of 1986, and Rules of the Department of Labor. WAMI has adopted procedures designed to provide for appropriate oversight of WAMI's cross trading activity on behalf of their clients, including ERISA account clients.

### **Item 13 – Review of Accounts**

All client accounts are reviewed on an ongoing basis. Regularly, WAMI's client portfolios are formally reviewed against the Portfolio Policies and Investment Guidelines for each client account by WAMI's Chairman and Chief Investment Officer. It is the CIO's or a senior portfolio manager's responsibility to ensure that all WAMI client accounts receive proper portfolio management, consistent with the client's Portfolio Policies. Formal account and performance reports are offered to WAMI's clients on a quarterly basis, which may include current and historical performance data, a summary of portfolio activity over the quarter, a copy of portfolio holdings at quarter end and an investment overview prepared by WAMI's CIO. More frequent and informal reports may be provided upon request from clients or from client authorized consultants.

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

WAMI has no arrangements where it:

- Is paid cash by or receives some economic benefit from a non-client in connection with giving advice to clients, or
- Directly or indirectly compensates others for client referrals

## **Item 15 – Custody**

WAMI does not maintain custody of client funds or securities, but is deemed to be a Custodian by the SEC's definition for the private fund it advises. The private fund's financials are audited annually by an independent third party auditor; copies of the audited financials are distributed to limited partners.

## **Item 16 – Investment Discretion**

As noted above, WAMI currently manages only discretionary accounts. WAMI has authority to determine the following without obtaining specific client consent:

- Securities to be bought or sold
- Amount of the securities to be bought or sold
- Broker or dealer to be used
- Commission rates paid

WAMI usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, WAMI observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, WAMI's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made. Additionally as discussed in Item 1, clients may impose certain restrictions on their portfolio holdings.

Investment guidelines and restrictions must be provided to WAMI by clients in writing.

As noted in Item 12, WAMI will accept direction from clients as to which broker or brokers is/are to be used. Clients who direct WAMI to use a particular broker to execute transactions for their accounts should be aware that, in so doing, they may adversely affect WAMI's ability to, among other things, negotiate commissions or obtain volume discounts on aggregated orders or to obtain best price and execution.



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

Unless a client contractually reserves the obligation and right to vote proxies relating to portfolio securities held in its account, WAMI will vote any and all such proxies in what it believes in good faith to be the client's best economic interests. Any conflict between the client's best economic interests and WAMI's interests will be resolved in the client's favor pursuant to WAMI's proxy voting procedures. When determining the desirability of investing in a particular company, one of the primary factors WAMI considers is the quality and depth of that company's management. Accordingly, WAMI believes that the recommendation of management on any proxy issue should be given substantial weight. Thus, as a matter of practice, WAMI will vote most proxies in accordance with the position of the company's management. However, WAMI will consider each issue on its merits and it will not support the position of a company's management if it determines that such position would adversely affect the investment merits of owning the stock.

### ***The Proxy Voting Process***

WAMI has appointed several individuals to be responsible for voting proxies on a client's behalf, subject to any applicable instructions or investment restrictions the client may have adopted and communicated to WAMI from time to time. These individuals will vote proxies in accordance with WAMI's voting guidelines, which are summarized below. WAMI's voting guidelines indicate its willingness to vote with management on matters of a routine administrative nature. Regarding special interest proposals, WAMI is generally opposed to such proposals if they involve an economic cost to the company or restrict management's freedom to operate in the best interests of its shareholders. Accordingly, WAMI will generally vote with management on special interest proposals. WAMI carefully considers all matters which may have a potential major impact on the company, and it will generally vote against management on proposals that have the potential for a major adverse economic impact on the long-term value of the company's shares. Examples of issues which may have a major impact on the company include: (1) executive compensation plans, (2) defensive strategies such as staggered boards and "poison pills," (3) business combinations or restructurings, and (4) increases or decreases in common or preferred stock outstanding. Each vote is ultimately cast on a case-by-case basis, taking into consideration all relevant facts and circumstances at the time of the vote.

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

Before voting a proxy, WAMI will attempt to identify the existence of any actual or potential conflict of interest by taking steps reasonably designed to determine whether WAMI, or any of its affiliates, has any personal or business interest or relationship with the company soliciting the proxy that might influence WAMI to vote the proxy in a manner inconsistent with a client's best economic interests. For example, a conflict of interest might exist where a client or client-

supported group actively supports or opposes a certain proxy proposal. If the person responsible for voting a proxy identifies a potential or actual personal conflict of interest that appears to be material, that person will refer the decision to another individual responsible for voting proxies who has no such conflict. In the event of an organizational conflict, or if all the individuals responsible for voting proxies are subject to a personal conflict, the proxy will be voted according to the recommendation of an independent third party.

### ***How to Obtain More Information***

Clients may obtain a copy of the WAMI's written proxy voting policies and procedures and/or information on how WAMI voted proxies for the client's managed account(s), by writing to WAMI at 732 Kings Highway West, 1<sup>st</sup> Floor, Southport, CT 06890 or by calling WAMI at (203) 227-3601. WAMI will not disclose to third parties how it voted proxies with respect to investments in a client's account unless the client has specifically authorized WAMI to do so in writing.

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about WAMI's financial condition. WAMI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.