



Daruma Capital Management, LLC

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This brochure provides information about the qualifications and business practices of Daruma Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 869-4000 or by e-mail at clientservice@darumanyc.com.

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.

Additional information about Daruma Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Daruma Capital Management, LLC is registered as an investment adviser under the Investment Advisers Act of 1940 ("Advisers Act"), but such registration does not imply that Daruma or our personnel have a certain level of skill or training.

July 26, 2017

2. Material Changes

This is an interim update of Daruma Capital Management, LLC's Form ADV brochure. Our last interim amendment was dated July 11, 2017 disclosing an inter-building move of our primary office location to a new suite at 1120 Avenue of the Americas, Suite 1504. Since then another material change has occurred to our brochure. Effective immediately, Daruma's primary office location is 626 King Avenue, Bronx, New York 10464 and 1120 Avenue of the Americas, Suite 1504, New York, NY 10036 remains as our other office location.

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4. Advisory Business

Overview

Daruma Capital Management, LLC (“Daruma LLC”) provides investment management services to public and corporate pension funds, endowments, foundations, other nonprofit organizations, corporations and high net worth individuals using a Small-Cap strategy (07/28/95 inception) and a SMid-Cap strategy (04/30/10 inception). Ms. Mariko O. Gordon, CFA, the firm’s founder, CEO and CIO, has been the sole Portfolio Manager since inception and is the majority owner of Daruma LLC.

Daruma LLC succeeded to the business of Daruma Asset Management, Inc. (“Daruma Inc.”) in April 2012. Daruma Inc. was founded under the name CastleRock Capital Management, Inc. in April 1995, and changed its name in March 1998.

For more information about all of our affiliates, see *Other Financial Industry Activities and Affiliations*, below. When we use the terms “Daruma”, “we”, and “our” in this brochure, we are referring to Daruma LLC, Daruma Inc. and all our affiliates, collectively.

Advisory Services

Daruma LLC’s investment approach is defined by certain key beliefs:

- A concentrated portfolio compels truly active management
- In any market we can find 25 to 35 stocks with strong potential to outperform
- The best time to buy is not just when a stock offers good value, but when we can clearly define what will drive the price higher — in most cases better-than-expected sales, earnings or cash flow growth.

Our clients have a choice of two strategies: Small-Cap equity and SMid-Cap equity. Each strategy invests in equities of U.S. or non-U.S. companies listed on U.S. exchanges. The Small-Cap strategy generally invests in companies with market capitalizations up to \$2 billion at the time of purchase. Our SMid-Cap strategy generally includes companies with market capitalizations that are below \$10 billion and above \$2 billion at purchase, as well as some of the larger and more liquid names we hold in our Small-Cap product which may have market capitalizations below \$2 billion. We do not own or invest in real estate investment trusts (“REITs”) as we consider them a different asset class.

Clients can invest by either establishing an individual managed account or investing in a Daruma LLC-sponsored collective investment pool (the “Daruma Funds”). The Daruma Funds are not registered under the Investment Company Act of 1940, nor is the offering of limited partnership interests in the Daruma Funds registered under the Securities Act of 1933. Therefore, interests in the Daruma Funds are privately offered only to investors that satisfy eligibility requirements.

Information regarding the Daruma Funds contained in this brochure is provided only to satisfy Daruma LLC's disclosure requirements; this is not an offer to sell interests in the Daruma Funds.

Small-Cap and SMid-Cap accounts, including the Daruma Funds, are managed based on a model portfolio; however, our services can be tailored to some extent for individual clients. For example, accounts in the same strategy generally have similar weightings in the same securities, but an account that is significantly smaller than other accounts in the same strategy may have somewhat different security weightings due to lot rounding. In addition, a client using an individual managed account may impose reasonable restrictions on investments in their account, but certain or too many restrictions could be disruptive to our investment style. Furthermore, individual managed account clients may also impose more restrictive guidelines whereby the account's eligible securities, and in turn its holdings may differ from the securities that would normally comprise the model portfolio for its respective strategy. Daruma currently manages individual managed accounts in the Small-Cap strategy that can be classified in this manner. Because of these factors, we review all restrictions and guidelines a client wants to impose before accepting the account, and any agreed restrictions or guidelines (and any future changes) must be in writing and signed by Daruma.

Wrap Fee Programs

Daruma does not currently participate in any wrap-fee programs.

Assets Under Management

As of December 31, 2016, Daruma has \$ 1,798,524,636 in regulatory assets under management on a discretionary basis. Daruma does not manage any assets on a non-discretionary basis.

5. Fees and Compensation

Individual Managed Accounts

Management Fee

Daruma LLC is generally paid a fee as a percentage of assets under management. The standard fee for individual managed accounts is 1% per annum, charged quarterly in arrears based on the value of the account at the end of the quarter. If an account terminates other than at the end of the quarter, fees are prorated. However, we have discretion over the fee we charge any client, and may agree to a lower fee, a different calculation methodology, or a different schedule for a particular client than we have agreed with comparable clients in the same investment strategy. We may also agree, in our sole discretion, to a fee that includes a performance-based fee, but only with clients that meet requisite eligibility requirements.

We bill our clients for our management fees, although some clients may authorize their custodian or a third party to pay us upon receipt of an invoice. Daruma LLC does not deduct its fees from individual managed accounts.

The specific details of any client's fee, including rate, calculation methodology, payment schedule, etc. will be set forth in the client's investment management agreement.

Other Fees and Expenses

Clients will also bear the costs of maintaining and trading in their account, including custodial fees, brokerage commissions (see *Brokerage Practices*, below) and other securities transaction costs, wire transfer and electronic funds charges, and the fees of any third party the client hires, such as an auditor or consultant.

Collective Investment Pools

Each of the Daruma Funds has two series of limited partnership interest. The series differ only in the fees charged. Following is a summary of the fees and expenses paid by the Daruma Funds. Additional details are set forth in the offering documents for each fund.

Management Fee

The Series A interests carry a management fee of 1% per annum of each Series A capital account. The Series B interests carry a management fee of 0.75% per annum of each Series B capital account, plus the incentive allocation described below. The management fee for each series is paid monthly in advance within 10 days after the first day of each month based on the net asset value of each capital account as of the first day of the month. Daruma LLC may waive, modify or reduce the management fee for certain investors in its sole discretion.

Incentive Allocation

Daruma is eligible to receive an incentive allocation with regard to the Series B interests for each fiscal year. The incentive allocation is 10% of the share of net profits, if any, allocated to a Series B capital account in excess of a non-cumulative Hurdle Rate. The “Hurdle Rate” is the amount of net profits or net losses, as the case may be, that would have been credited or debited to each Series B capital account for the fiscal year if the rate of return on that capital account had been equal to the total return of the Russell 2000 Index for the Small-Cap strategy or the Russell 2500 Index for the SMid-Cap strategy (in each case with dividends reinvested). For any period less than a year, the Hurdle Rate will be calculated based on the total return of the relevant index (with dividends reinvested) during such period. If an investor makes a withdrawal (in whole or in part) at any time other than the end of a fiscal year, the incentive allocation is charged at the time of withdrawal based on the return of the relevant index through the withdrawal date. In the case of a partial withdrawal, Daruma LLC may, in its sole discretion, agree to delay the deduction of the incentive allocation until the end of the fiscal year. Daruma LLC may waive, modify or reduce the incentive allocation for certain investors in its sole discretion. Each of the Daruma Funds has a fiscal year ending on December 31.

Despite the foregoing, Daruma LLC will not receive an incentive allocation with regard to a capital account until any net loss previously allocated to that capital account has been offset by subsequent net profits. Any such loss carry-forward will be subject to reduction for withdrawals on a pro-rata basis.

Other Fees and Expenses

Each Daruma Fund also pays its own operating and trading expenses. These include third-party legal, audit and tax preparation fees, third-party fund administration expenses, brokerage commissions and other securities transaction costs, custodial fees, wire transfer and electronic funds charges.

Calculation and Payment

The third-party fund administrator of the Daruma Funds calculates the Management Fee, and we review the calculations. The fund administrator then prepares a wire request for our approval. Once approved internally, the wire is sent to the custodian to process the wire.

The third-party fund administrator of the Daruma Funds calculates the Incentive Allocation, and we review the calculations. In accordance with the Limited Partnership Agreement, the fund administrator reallocates the Incentive Allocation from the capital accounts of the limited partners to that of the General Partner of the Daruma Funds.

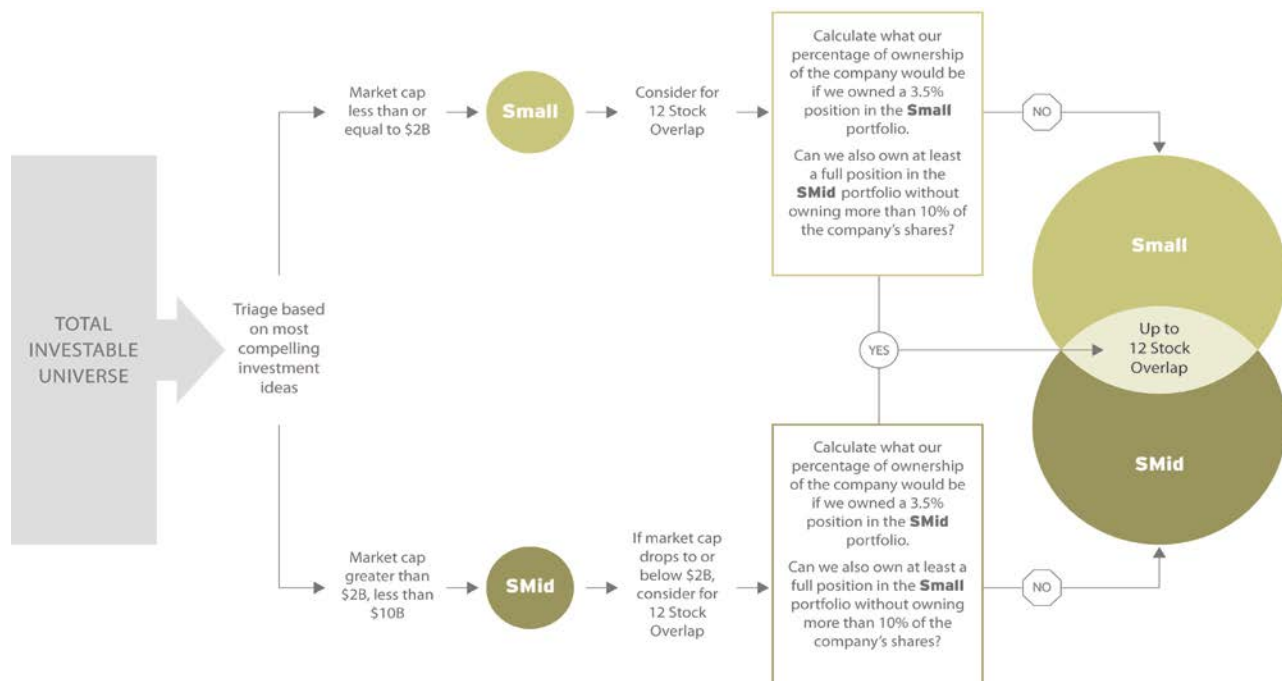
Invoices for other fees and expenses must first be approved internally and then are sent to the fund administrator for approval. The fund administrator then prepares a wire request for our approval. Once approved internally, the wire is sent to the custodian to process the wire.

6. Performance-Based Fees and Side-by-Side Management

Daruma LLC manages accounts with and without performance-based fees according to the same strategies. We also manage individual managed accounts and the Daruma Funds according to the same strategies and investment philosophies (i.e., side-by-side management). These situations may create an incentive for us to favor accounts with higher fees (such as the Daruma Funds), or to take risks in managing assets subject to a performance-based fee that we would not otherwise take.

Daruma has a duty to treat all client accounts fairly and equitably. One of the ways we do this is by managing all accounts in a particular strategy to the same model portfolio, except when this would conflict with a particular client's guidelines or restrictions. Trades are generally executed as a block (see *Brokerage Practices – Trading Allocation and Aggregation*, below, for more information). Daruma LLC's investment team also periodically reviews portfolio dispersion for both positions and performance across accounts in the same strategy to verify that no account is getting preferential treatment over another. All findings are reviewed by our Trade Oversight Committee, which is chaired by the Director of Research and Trading and whose members also include Daruma's Chief Operating Officer, Chief Compliance Officer, Chief Financial Officer and Research Analyst.

Because our SMid-Cap strategy can hold some of the same securities as our Small-Cap strategy, we have implemented a process to determine allocation of these securities between the strategies. We allow no more than a 12 stock overlap between the two products (although we may sometimes exceed this limit when we are transitioning in and out of different positions). The following decision tree illustrates the interaction between the two products and how new ideas are allocated between the two products.



The Chief Compliance Officer periodically reviews transactions for all accounts, and monitors for potential conflicts in the trading for clients.

7. Types of Clients

As described in *Advisory Business – Overview*, Daruma LLC provides investment advisory services to public and corporate pension funds, Taft-Hartley accounts, endowments, foundations, other nonprofit organizations, corporations and high net worth individuals.

Generally, Daruma requires a minimum investment of \$20 million for individual managed accounts. An investment in one of the Daruma Funds (a commingled vehicle) requires a minimum investment of \$1 million. Daruma may waive or modify these minimums in our sole discretion.

For individual managed accounts, Daruma requires a written investment management agreement and an investment policy statement. Additional documentation may be required in certain circumstances, such as agreements with particular custodians. Investors in the Daruma Funds must complete a subscription agreement and may be required to submit additional documentation as described in the Funds' offering documents. Investors must also satisfy eligibility requirements established by the SEC before their investment will be accepted.

8. Methods of Analysis, Investment Strategies, and Risk of Loss

Investment Strategies

As described in *Advisory Business*, above, Daruma offers discretionary investment management services utilizing either a Small-Cap strategy or a SMid-Cap strategy that both invest in U.S.-listed equities. Every account that Daruma manages adheres to the same investment philosophy and process, the only difference being the market capitalization of the companies in which the strategies invest (described in this section under *Methods of Analysis & Internal Guidelines*, below).

Investment Philosophy

Daruma's investment approach is defined by certain key beliefs:

- A concentrated portfolio compels truly active management.
- In any market we can find 25 to 35 stocks with strong potential to outperform.
- The best time to buy is not just when a stock offers good value, but when we can clearly define what will drive the price higher — in most cases better-than-expected sales, earnings or cash flow growth.

Methods of Analysis & Internal Guidelines

Daruma's investment process is based on bottom-up, fundamental analysis. We evaluate the classic valuation ratios used in financial statement analysis, although these may differ between sectors, industries and companies. The most important factors to us are return on capital, free cash flow generation, growth in sales and profits, quality of management and strength of the business model. We look at specific firm metrics relative to both peers and relevant historic conditions. Daruma's investment team delves into a portfolio candidate's past financial history to understand its business model. We conduct historical analysis using quarterly and annual financial filings. Understanding a company's past allows us to test our assumptions about the company's future. We read past earnings call transcripts, industry reports and other available research. We also spend time with management (often onsite), as well as suppliers, competitors and customers in order to better understand the drivers to the business model.

Our investment team looks to sell-side analysis to obtain history and color on an industry or company, if the analyst has been covering that group or stock for a long time, and to gauge investor psychology. This helps us to better understand what's priced into a stock, and to clarify where our investment perspective differs from "the Street". The sell-side also provides us with access to research conferences and management meetings.

While we spend some time trying to identify macro trends, our focus is to understand the macro environment and market psychology, as this has an impact on our portfolio holdings. The Portfolio Manager is responsible for monitoring the macro environment as it relates to our holdings.

Every holding is followed by a research analyst, and the Portfolio Manager is responsible for monitoring the health of the entire portfolio by keeping an eye on aggregate risk. Investment team members meet daily to review the portfolio, share fundamental news on their stocks, define a course of action and discuss progress on new ideas. They may also meet more frequently as developments occur.

We've also analyzed every buy and sell decision we've made. This helps us avoid rewriting history or repeating the same mistakes, while allowing us to replicate our successes. As investors engaged in the imperfect art of predicting the future, we want to define what we have done well and what we could have done better.

Our portfolio is constructed using the following guidelines:

- Equities listed in the U.S. with market capitalization, generally, of:
 - ↳ Up to \$2 billion at purchase in our Small-Cap strategy, and
 - ↳ below \$10 billion and above \$2 billion at purchase in our SMid-Cap strategy, as well as some of the larger and more liquid names that are held in our Small-Cap product.
- No more than a 12-stock overlap in holdings between Small-Cap and SMid-Cap. See *Performance-Based Fees and Side-by-Side Management*, above for the process we use to determine allocation of securities between our two strategies.
- No less than 25 and no more than 35 positions.
- Position sizes capped at 6% (in practice 5% is rare).
- Sectors capped at 25% or 2 times the benchmark weight, whichever is greater.
- No REITs as we consider them a different asset class.

Our liquidity criteria are:

- Average daily trading volume of \$3 million a day.
- The ability to own a minimum (2.2%) position in either strategy without owning more than 10% of a company's outstanding shares.

Investment Process

Our fundamentally-driven, bottom-up investment process for both the Small- and SMid-Cap strategies consists of six steps:

Step One: Generate New Ideas Systematically

Daruma looks for companies that are inexpensive and changing for the better. We run quantitative screens looking for stocks that are pummeled, unwanted, cheap and changing. We run qualitative screens that look for unusual insider behavior, management changes, and inflection points in conference call transcripts.

New ideas also come from meetings with management teams onsite, at research and industry conferences and in our New York City office. Our research on existing holdings often leads to new positions in the same or a related industry. Daruma's investment philosophy means that we are often long-term holders of companies in our portfolio, and are viewed as desirable shareholders by company management.

Step Two: Understand the Past

Daruma delves into a portfolio candidate's past financial history to understand its business model. We conduct historical analysis using quarterly income statements, cash flow statements and balance sheets. Understanding a company's past allows us to test our assumptions about its future. Daruma reads earnings call transcripts, industry reports and other available research. We spend time with management (often on-site), as well as suppliers, competitors and customers in order to better understand the drivers to the business model.

Step Three: Weigh Future Outcomes

Incorporating all of our research, we weigh the probabilities of future outcomes. We at Daruma are agnostic as to the source of improving results, as different drivers have different risks and different rewards. Our job is to make sure that the upside of being right far outweighs the downside of being wrong.

For example, a sustained acceleration in sales will usually be rewarded more handsomely by investors than a small increase in profit margins. A business whose revenues become more predictable also generally becomes more valuable in the Street's eyes.

Much of our work focuses on where we believe investors are miscalculating growth or the predictability and/or sustainability of cash flow. We work to understand what will drive future results, and calculate a range of probable outcomes.

Step Four: Define the Investment Thesis

Next, we define on paper why we believe that the company is a good investment. Defining our investment milestones in writing helps assure process integrity, allowing us to understand over time why our ideas work or do not work. The investment thesis describes why we expect sales, profits or

cash flow to improve, what we expect the company to earn, the time frame within which we expect this to occur and any potential risks to the progress of the thesis.

In developing the investment thesis, we work hard to find information that could derail our outlook, as opposed to searching for information that validates what we already think. It's important to spell out why our opinion is different from the consensus view.

Step Five: Valuation

We lay out the case of our upside and downside price targets. To justify a purchase, the upside potential to downside risk relationship must be three to one, and we need to make a case for appreciation of at least 50% over two years. This forces us to focus on only our most compelling ideas.

Step Six: Weekly Review and Sell Discipline

Every holding in the portfolio is subject to a weekly review of its valuation relative to its fundamentals. We live by the dictum, "Every stock must earn its keep." This belief guides every step of the investment process, especially the sell discipline.

We sell when:

- A stock becomes too expensive relative to its prospects, and its downside outweighs the upside.
- A stock gets taken over.
- New information contradicts our thesis.
- Our investment thesis was right, and the fundamental risk (results start to decelerate), valuation risk (the downside outweighs the upside) are unfavorable.
- We find a more compelling idea.
- The position gets automatically trimmed at a 6% portfolio weight.
- When a holding declines meaningfully, we generally sell or buy more within 90 days.

Risks

Client account values will fluctuate daily, and may go down as well as up. Any investment in equities is subject to risk of loss, which clients must be prepared to accept. Although we continually strive to improve our investment decision-making skills, there are no guarantees that specific results or positive returns will be achieved. Assets we manage are not insured or guaranteed by the Federal Deposit Insurance Corporation.

While there are numerous potential risks involved in investing, the following are some of the most significant risks our clients may face:

Small- & mid-cap company risk: The securities of smaller and mid-sized companies have historically exhibited more volatility and less liquidity than large companies. Some of the reasons for this are smaller revenue streams, narrower product lines, less management depth, smaller market share and fewer financial resources.

Non-diversification risk: Concentrated portfolios (those that invest in a relatively small number of securities, such as ours) may have more risk because of changes in the value of a single security or the impact of a single economic, political or regulatory occurrence may have a greater adverse impact on the strategy's performance.

Liquidity risk: If the volume of trading in a particular security is low we may not be able to purchase or sell at an advantageous time or price. This is often true of the small- and mid-cap stocks used in our strategies.

Sector/Industry risk: With our concentrated approach, we deliberately do not mirror the benchmark or set specific sector or industry weightings. Although sectors are limited to between 0% and the greater of 25% or 2 times the benchmark, we may at any time have a significant investment concentration in one or two sectors. Concentration in a particular sector may result in more volatility than a strategy that is more evenly spread across sectors if a particular economic or market event affects that sector.

Equity securities risk: The price of any equity security can change dramatically due to changes in a company's financial condition or a single event at the company.

Market risk: A security may lose value due to a general downturn in stock markets even if the company that issued the security has not experienced a decline in its financial condition or other negative event.

Our position and sector caps and liquidity criteria (described above in this Item 8 under the subheading *Methods of Analysis & Internal Guidelines*) provide some limit on certain of these potential risks. However, we don't look at traditional measures of risk because of our portfolio concentration. We primarily manage our risk by knowing what we own and buying at what we think is a good price. Our average holding period is two and a half years, which, when coupled with our concentration and relatively low turnover, means that our investment team has the luxury of knowing our portfolio holdings well. Each research analyst is intimate with company-specific risk. We track our holdings to explicit milestones and look for evidence to disprove our investment thesis. The Portfolio Manager monitors exposure rolled up to the portfolio level.

Because we purposely do not attempt to meet specific target weights in sectors or industries or to mirror a benchmark, we can select what we believe are companies with the best chance of appreciation. We believe our focus on long-term investing will ultimately allow business quality to be reflected in the stock price, whereas short-term returns may be more volatile and affected by market sentiment.

9. Disciplinary Information

There are no legal or disciplinary events related to Daruma or its personnel that we believe clients or prospective clients would consider material.

10. Other Financial Industry Activities and Affiliations

As disclosed in *Advisory Business – Overview*, above, Daruma LLC provides investment management services to public and corporate pension funds, endowments, foundations, other nonprofit organizations, corporations and high net worth individuals using a Small-Cap strategy (07/28/95 inception) and a SMid-Cap strategy (04/30/10 inception). Ms. Mariko O. Gordon, CFA, Daruma LLC's founder, CEO and CIO, has been the sole Portfolio Manager since inception and is the majority owner.

Daruma LLC's relationship to Daruma Inc. is described in *Advisory Business – Overview*, above.

Daruma LLC has one other affiliate. Daruma Asset Management GP, LLC ("Daruma GP") is owned by Mariko O. Gordon, CFA (majority owner) and other Daruma LLC employees, who are Participating Members. Mariko O. Gordon, CFA is the Senior Managing Member of Daruma GP. Daruma GP serves as the general partner of two collective investment pools advised by Daruma LLC.

Daruma LLC, Daruma GP and Daruma Inc. all share the same New York office space and personnel. When we use the term "Daruma" in this brochure we are referring to all the Daruma entities, collectively.

11. Code of Ethics, Participation/Interest in Client Transactions, and Personal Trading

Code of Ethics and Personal Trading

Because Daruma is a registered investment adviser, we have a fiduciary duty to our clients. For that reason, and as required, Daruma has adopted a Code of Ethics (the “Code”) that obligates our personnel to put the interests of our clients before their own interests and to act honestly and fairly in all respects in their dealings either with clients or in any other professional capacity. Our Code also puts restrictions or limitations on certain activities, such as personal trading, the giving or receiving of certain gifts and/or entertainment, participation in certain outside business affiliations, donations of a political nature or any other scenario that might cause a conflict between our clients and our personnel. Key provisions of the Code are summarized below. A copy of our Code of Ethics is available upon request by contacting Daruma using the contact information on the Cover Page.

Any equity trades by our personnel for their own account or the accounts of certain other individuals that are deemed to be covered by the Code must be pre-cleared with the Chief Compliance Officer, who monitors employee and other relevant trading activity. Purchases will not be allowed in a security that is currently held in any client account or is within Daruma’s investable universe as defined by market capitalization (but sales of such are permitted with pre-clearance). Certain trades are excepted from these requirements, such as trades in exchange-traded funds (ETFs), open-end mutual funds, and money market funds, as well as trades made pursuant to any automatic investment plan or in an account over which the employee has no influence or control (e.g., a blind trust, discretionary account managed by a third party, etc.). All personnel are required to provide quarterly reports and certifications regarding their personal securities transactions and annual reports regarding their personal securities holdings. Although it is seldom in practice, the Chief Compliance Officer may grant an exception from pre-clearance, other trading restrictions, and certain reporting requirements on a case-by-case basis if he determines that the circumstances do not conflict with client interests. No exceptions will be granted to provisions of the Code that would violate requirements of the law.

Our Code places restrictions, limitations and/or reporting requirements on the receipt of certain gifts, travel, and entertainment opportunities by our personnel. The Code also sets forth certain limitation and/or reporting requirements for our personnel’s outside business activities as well as their ability to make political donations. Our personnel occasionally receive business gifts or participate in entertainment opportunities that are for legitimate business purposes and/or engage in outside business activities that neither conflict with their duties to Daruma nor create a conflict of interest for Daruma. This activity is subject to limitations set forth in the Code and is monitored closely by the Chief Compliance Officer.

Insider Trading

We forbid all our personnel and certain other individuals that are deemed to be covered by the Code from trading on material non-public information. This restriction applies whether the trading is for a personal account, a client account or any other person. In addition, Daruma forbids personnel from communicating material non-public information to others in violation of the law. These actions are frequently referred to as “insider trading”. Our Code contains guidelines for personnel to consider in identifying whether they are in possession of material non-public information. Any person who believes they may have such information must report the matter promptly to the Chief Compliance Officer. If the Chief Compliance Officer determines that the information is material non-public information, he will determine appropriate steps to take, which may include restricting trading in the securities or establishing information barriers.

Participation or Interest in Client Transactions

Daruma is not a broker/dealer and in practice does not trade money for its own account. However, our employees or affiliates may invest money in the Daruma Funds, or in other collective investment pools or accounts we manage. In addition, Daruma GP has an interest in each of the Daruma Funds, and is eligible to receive the Incentive Allocation described in *Fees and Compensation*. These situations might give us an incentive to favor the Daruma Funds or other accounts in which our employees invest. We have adopted procedures designed to prevent any such preferential treatment, which are described in *Performance-Based Fees and Side-by-Side Management*.

Because many of our clients are institutions, Daruma LLC might have the opportunity to invest client assets in securities issued by one of Daruma’s clients, or to contract for products and/or services from a company in which we invest client assets. A written investment thesis is prepared for each investment we make for client accounts. Should one of these situations arise, the Portfolio Manager and the Chief Compliance Officer will monitor the situation to verify that investment decisions are made solely based on the best interest of our clients.

12. Brokerage Practices

Generally, we are given discretion by our clients to select the broker/dealers we use to execute trades in client accounts. Some clients may limit our brokerage discretion by directing us to use a specific broker or type of broker to execute all or a portion of their securities transactions.

Brokerage Relationships

We use various brokers to execute client transactions, and we may have other relationships with these brokers. For example:

- We may invest client assets in securities issued by broker/dealers or their affiliates;
- While it is not done in practice, we may provide investment management services to certain broker/dealers or their affiliates;
- Certain broker/dealers provide internally generated and/or third-party research to us based on the amount of trade executions that we place with them on behalf of our clients; and
- Family members of some of our personnel are employed by broker/dealers and third-party research providers.

Daruma has a fiduciary duty to seek best execution for our clients, regardless of other relationships we may have with brokers. We have therefore implemented policies and procedures to monitor these transactions.

Best Execution

Daruma has a duty to obtain best execution in transacting securities for its clients' accounts. It is Daruma's policy to seek best execution for client trades, taking into account the full range of a broker's services, including the value of research provided and execution capability, commission rate, financial responsibility and responsiveness.

In seeking best execution, Daruma will consider a number of factors including, but not limited to (i) the broker's ability to efficiently execute, report, clear, and settle the order, (ii) familiarity with the markets for the types of securities in which we trade, (iii) the broker's communications ability and history of timely and accurate communication with Daruma's trader, (iv) the price at which the security is purchased or sold, viewed absolutely and in relation to the liquidity of the market for the security, (v) research products and services provided by the broker, (vi) commission rates, and (vii) the broker's financial soundness and integrity.

In seeking best execution, Daruma looks for the most favorable combination of transaction price, quality of execution (such as the speed of execution and the likelihood the trade will be executed) and other valuable services that an executing broker/dealer may provide. Recognizing the value of these

factors, the trader may select a broker that charges a commission in excess of that which another broker might have charged for effecting the same transaction. Daruma is not obligated to choose the broker offering the lowest available commission rate if, in Daruma's reasonable judgment, the total cost or proceeds from the transaction may be less favorable than what may be obtained elsewhere or if a higher commission is justified by the service and/or research provided by another broker.

Daruma receives and reviews trade cost analysis reports prepared by a third-party. These reports are provided to Daruma within 30 days past the end of the quarter and reviewed at the subsequent Trade Oversight Committee meeting. The Director of Research and Trading is responsible for providing the analysis to the Trade Oversight Committee members, and will include an executive summary on the reports. In addition, on any transaction greater than 100 bps exposure change, the trader emails to the Portfolio Manager and analyst on that position a summary analysis of the trade experience. The email may include, but not limited to, the trade details; trade instructions; avg. execution cost; stock price range (over trade dates); # of trading days; # of days trade should have taken (based off 20% actual traded volume); trader comments. The Director of Research and Trading will maintain a log of all the summary analysis emails and provide the details with analysis at the Trade Oversight Committee meeting.

To determine that it is receiving favorable commission rates for its transactions over time, the Director of Research and Trading will obtain from industry contacts and in conversation with the trading community information as to the general level of commission rates being charged by the brokerage community, from time to time, and will periodically evaluate the overall reasonableness of brokerage commissions paid on client transactions by reference to such data.

Daruma maintains a broker budget to accurately and fairly allocate commissions to brokers that properly provide, but not limited to: execution capability, commission or equivalents, accessibility and responsiveness, need for speed, value of research/services provided, willingness to commit capital, assistance in finding liquidity, ease of settlement and clearance, block trades, specialization in particular markets or securities, electronic order access and trade reporting, anonymity, financial responsibility, low trade errors and willingness to correct their mistake(s). In constructing the broker budget, the Director of Research and Trading will use input from the Investment Team as to the quality and quantity of research and brokerage services the broker provides to Daruma. The broker budget is set at the start of the fiscal year by the Director of Research and Trading and approved by the Trade Oversight Committee. The Director of Research and Trading monitors the broker budget and commissions on an ongoing basis. The Trade Oversight Committee reviews the commission sheet quarterly at the Trade Oversight Committee meeting.

Use of Soft Dollars

Daruma may direct some transactions for execution to certain broker/dealers in recognition of brokerage and research services they provide. The practice of obtaining research in this manner is

referred to as using “soft dollars.” Soft dollar transactions may cause clients to pay a commission rate higher than would be charged for execution-only transactions. The products and services received through soft dollar transactions may be produced by the broker/dealer itself or obtained from other third-party providers.

Although we might have an incentive to select a broker/dealer based on the research products and services we receive from the broker/dealer, we obtain such services from brokers only after we determine, in good faith, that the broker’s commission rates are reasonable in light of the services provided. Daruma’s soft dollar arrangements fall within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934 and related guidance issued by SEC staff. Our Trade Oversight Committee (which, as described in *Performance-Based Fees and Side-by-Side Management* includes the Chief Compliance Officer) will review all soft dollar arrangements to verify they fall within the 28(e) safe harbor. If a product or service is used both for purposes allowed under Section 28(e) and also for purposes that do not fall within the safe harbor, we will make a good-faith determination as to the relative proportion that is used for eligible versus non-eligible purposes. Only the portion of the cost that is eligible under 28(e) will be paid for with soft dollars. Daruma will pay the cost that is attributable to purposes not eligible with its own resources.

From time to time, certain clients may request that Daruma not generate or limit the amount of soft dollar credits on trades executed for their accounts. While Daruma may accommodate such requests in its discretion, trades for these clients generally do not experience lower transaction costs. In addition, the trading process for these clients may be adversely affected in other ways, including that the client may not participate in aggregated orders with clients that have not made such a request, therefore preventing the client from receiving the price and execution benefits of the aggregated order. In addition, and as with other directed or customized brokerage arrangements, the positions of these accounts in trade ordering and trade rotation may be impacted.

Monitoring Brokerage Transactions

The Trade Oversight Committee meets quarterly to approve any changes to the list of brokers with which the firm may place trades on behalf of client (the “Approved Broker List”) and to ratify any additions to the list made in accordance with these procedures. The Approved Broker List is maintained by the Director of Research and Trading. The Approved Broker List is comprised of brokers for which either i) Daruma has conducted due diligence and the broker has been approved by the Trade Oversight Committee and ii) Directed Brokers. The Trade Oversight Committee may designate any limitation on the use of an approved broker, including a limit on the amount or size of transactions, the asset class, the use of the broker for general use or limited use (give ups/step-outs only), or for specific mandates. Ahead of each quarterly Trade Oversight Committee meeting, the Chief Compliance Officer and Chief Financial Officer or delegates will review a subset of the

Approved Broker List to verify that each broker remains suitable for Daruma's Approved Broker List. Each broker is evaluated no less than once per a three year cycle.

When a trader or Portfolio Manager desires to work with a broker that is not on the Approved Broker List, he or she must generally seek approval in advance of placing such trade. The trader or Portfolio Manager submits the request to the Chief Compliance Officer and Chief Financial Officer. Directed Brokers, which are those that are used only by a client providing the direction and not for any other client accounts, are added to the Approved Broker List automatically by the Director of Research and Trading without Chief Compliance Officer approval.

On a quarterly basis as set forth by the Code, the Chief Compliance Officer requires all Daruma personnel, including its trader(s), to disclose personal or familial relationships with brokers that present a potential conflict of interest. If such issues are disclosed, the Chief Compliance Officer obtains the facts, presents the matter for consideration to the Risk and Compliance Committee, and keeps a record of the resolution.

Directed Brokerage

Some clients have directed us to use specific broker/dealers or types of broker/dealers (e.g., minority-owned firms) for at least a portion of portfolio transactions in their accounts. In such a case, Daruma is not obligated to, and will generally not, solicit competitive bids for each transaction or seek the lowest commission rates for the client. Since Daruma has not negotiated the commission rate and may not be able to obtain volume discounts, the commission rate charged by the specified broker may be higher than what we could obtain from another broker/dealer. In addition, the client may be unable to obtain the most favorable price because we cannot aggregate/bunch the trades from this account with other client trades. In some situations, Daruma may not execute a client's securities transactions with its directed broker until non-directed brokerage orders are completed. Accordingly, clients who direct commissions to specified broker/dealers may not generate returns equal to clients that do not direct commissions. Clients who direct brokerage should understand that similar brokerage services may be available from other broker/dealers at lower costs and possibly with more favorable execution.

Although we do not actively monitor circumstances that may have a material negative effect on best execution when using a directed broker, we will attempt to inform clients if we believe such circumstances exist. Clients directing brokerage will need to make the determination regarding continued use of such broker-dealer in light of all relevant factors, including the services and products the client may receive from such broker/dealer.

Daruma reserves the right to reject or limit client requests for directed brokerage if we do not believe we can reasonably execute our investment strategy in a client's accounts in light of the direction.

Trade Aggregation and Allocation

Daruma generally bunches trades in block orders to ensure all clients are treated equitably and all portfolios are invested proportionately in substantially the same manner. Total trades for the day in each security are average-priced by each broker, and underlying details of the transactions are kept for review. Shares are generally allocated pro-rata using our order management system. If we receive a partial fill of a trade order, we may allocate other than pro-rata to avoid excessive transaction costs to clients; our trader makes such decisions based on a variety of factors including the size of the fill versus the total order, whether the price of the security being traded is showing significant volatility, and limiting position dispersion across accounts. Our goal is to allocate trades to accounts in a way that treats all our clients fairly and equitably over time.

Any accounts we manage that include investments from our personnel are allocated in accordance with the same policy. See *Performance-Based Fees and Side-By-Side Management*, above.

Opposite Direction Trades

Daruma does not engage in cross trades. Although seldom in practice, there may be times when we place buy and sell orders between client accounts on the same day, in the same stock, usually because of cash flows in one or more client accounts or as a result of cash restrictions. Such transactions may give rise to potential conflicts of interest (where one client may receive a more favorable price than another). In an effort to mitigate any potential conflicts, these transactions are executed in the market with different brokers at the same time, provided the security has sufficient liquidity that the trades are not expected to impact the market price (generally less than 25% of the daily volume). Opposing client trades in the same security that might impact the market price (generally more than 25% of the volume) will be entered into separate algorithmic trading platforms to trade in equal increments over the remainder of the day, so that both sides of the trade are expected to receive approximately the same average price. In any of these circumstances, if the orders are not expected to be completed on the day they are placed, the trader will alert the Portfolio Manager and the Chief Compliance Officer, who will discuss with the trader the appropriate way to sequence the trades in accordance with Daruma's fiduciary duty to clients, taking into account the size of the trades, the liquidity in the market and such other factors as they reasonably deem relevant.

Trade Errors

We bear the cost of correcting any trade error caused by our failure to place or process trades correctly. If the error results in a gain, the client account will keep the profits unless the client directs otherwise. If there is a direct financial loss to a client account, Daruma will reimburse the account. In the unlikely event a single account experiences more than one error due to related circumstances, we may offset losses against profits in that group of errors in determining the amount to be reimbursed or credited to the account. However, in no event will losses in one account be

offset by profits in another account. In each case, our goal is to make clients whole for any losses suffered as a result of our errors.

13. Review of Accounts

Mariko O. Gordon, CFA is Daruma LLC's Chief Investment Officer and sole Portfolio Manager, and is responsible for all account reviews. The portfolio is monitored daily, and the investment team meets formally once a week to review portfolio holdings, and daily to discuss any news that may require follow up or other matters that have arisen. They may also meet more frequently to review client portfolios and company, sector and industry developments.

In addition, our Operations Team reconciles client account information on our systems to the records of the custodians that actually hold the assets on a daily basis. If we find any discrepancies, our Operations Team works with the custodian to resolve the issue.

Furthermore, various reports are reviewed by the Portfolio Manager, the Investment Team, members of the Operations Team and/or the Chief Compliance Officer on a periodic basis, including, but not limited to, performance (both absolute and relative to the strategy's benchmark), dispersion across accounts following the same strategy, cash flows, distribution of holdings across sectors and market capitalization (which are prepared only on an as-needed basis), and liquidity.

Daruma LLC provides clients with quarterly reports regarding performance, market commentary, portfolio characteristics and portfolio activity. Performance is stated in absolute and relative returns for the quarter, year-to-date and since inception, and a GIPS-compliant composite for the relevant strategy is included. Monthly results are also provided if requested. Investors in the Daruma Funds receive a monthly account statement from the funds' administrator.

14. Client Referrals and other Compensation

Daruma does not currently use any third-party to solicit new business on behalf of Daruma LLC or the Daruma Funds, although we have done so in the past. If we enter into any solicitation arrangements in the future, they will be in accordance with rules under the Advisers Act applicable to the use of solicitors.

Many of our clients and prospective clients use investment consultants to advise them on the selection and review of investment managers, and we provide these consultants with information on accounts we manage for our clients who have directed us to do so. In addition, we may provide consultants with general information on our investment strategies and services. The consultants may use that information in connection with services to their clients, and may introduce prospective business to our firm, include us in searches they conduct for their clients, or make information about Daruma available to potential clients through online databases. We respond to requests for proposals from consultants in connection with new searches they conduct and from prospective clients introduced to Daruma by these consultants.

Daruma may have other interactions with consultants, such as:

- Inviting consultants to events or other entertainment hosted by our firm.
- Paying for the opportunity to participate, along with other investment managers, in conferences organized by consultants. These conferences provide us with the opportunity to discuss a broad variety of business topics with consultants, clients and prospective clients.
- We may manage proprietary accounts of consultants or their affiliates, or serve as adviser or sub-adviser to funds offered by consultants or their affiliates.

Upon request from a client, we provide information regarding our relationship with that client's consultant. However, we generally rely on each consultant to make appropriate disclosure to its clients of any conflict the consultant believes it has due to its relationship with our firm.

15. Custody

Individual Managed Accounts

We do not act as a custodian for assets in our clients' individual managed accounts. Clients must make their own arrangements for custody of their assets with a broker/dealer, bank, trust company or other qualified institution. The custodian will usually provide the client with at least quarterly account statements and/or on-line access to their account information. Clients should carefully review the custodian statement (or information, if the client uses on-line access) to verify that it accurately reflects the activity and assets for the relevant period.

We also provide reports to clients at least quarterly regarding their holdings. We encourage clients to compare the information provided by their custodian to the information we provide. Please note that our reports may vary from custodian statements for reasons such as accounting procedures, different pricing sources, pending trades, corporate actions, payment of dividends or reporting dates. Any questions, concerns or discrepancies found between the information provided by the custodian and information provided by Daruma, should be promptly reported to both us and the custodian.

Daruma Funds

Because Daruma GP is the general partner of each of the Daruma Funds and we can deduct our fees from the funds, we are deemed to have custody of the assets in the Daruma Funds, however we do not have actual physical custody of any assets of the Daruma Funds. These assets are held by an independent qualified custodian. Investors receive monthly statements from the Daruma Funds that are prepared and sent by the Funds' independent administrator. The Daruma Funds are audited annually and investors receive a copy of the audited annual financial statements of the fund in which they are invested.

16. Investment Discretion

Our clients give Daruma discretionary authority by executing an investment management agreement and/or a separate power of attorney for individual managed accounts and by executing a Limited Partnership Agreement for investments in the Daruma Funds. As a result, we are authorized to make investment decisions and to direct the execution of all transactions for the client's account without consulting with the client in connection with each transaction. However, this discretion may be limited for a particular client by specific client objectives, guidelines or restrictions. Initial client account guidelines are established by agreement between us and the client. They are typically included as part of the investment management agreement, and may be amended from time to time with the consent of both Daruma and the client.

Securities Lending Arrangements

Daruma does not engage in securities lending for client accounts, however a client may enter into securities lending arrangements to defray custody or other client account costs or for other reasons. Daruma is not a party to such arrangements and may or may not be aware of their existence. We will work with a client's custodian if we know there is a securities lending arrangement in place in order to determine whether securities we intend to sell are out on loan at the time. However, we cannot guarantee that a particular custodian will have on hand or be able to timely retrieve any securities it has lent that Daruma has instructed be sold. It is each client's responsibility to ensure that its custodian makes securities available for sale on a timely basis. Securities lending arrangements may also have an impact on our ability to vote proxies for clients who have delegated such authority to us. (See *Voting Client Securities*, below for more information.)

The Daruma Funds participate in a securities lending program sponsored by their custodian. The collateral pools are invested in non-cash government backed securities.

Class Action Suits and Other Legal Action

Our clients have the responsibility to initiate, consider or participate in any bankruptcy, class action or other litigation against or involving any issuer of securities currently or previously held in their accounts. We will not initiate, consider or participate in any such matters on behalf of any client. If a client decides to take action in any such matter, we will provide information in our possession regarding the account holdings and transactions upon request.

17. Voting Client Securities

Unless otherwise agreed with the client, Daruma will vote proxies in connection with all securities held in client accounts. In order for us to do this, the client's custodian must deliver the proxies in proper form and in a timely manner to our agent. We vote all proxies in the best interests of our clients as shareholders, and in a manner we believe will maximize the economic value of their holdings.

We have contracted with an independent third-party provider of proxy voting and corporate governance services ("Proxy Agent") which specializes in providing a variety of services related to proxy voting. Specifically, this Proxy Agent has been retained to conduct proxy research, execute proxy votes, and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for the appropriate client account.

The research analyst covering the security will review research provided by the Proxy Agent for each proposal, as well as any additional information he considers relevant, and will determine whether or not the Proxy Agent's recommended vote is appropriate. Generally, we follow management recommendations with regard to routine corporate housekeeping matters, such as the election of directors (where no corporate governance issues arise), selection of auditors and reasonable increases in or reclassification of common stock. We will usually vote against proposals that will make it more difficult to replace members of the issuer's board of directors (including proposals to stagger the board) cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and/or create supermajority voting. However, these guidelines are not absolute; each proposal is evaluated on its merits before the research analyst makes a determination.

The vote entered on a client's behalf with respect to a particular proposal may differ from the proxy voting guidelines and/or from the vote entered on behalf of another client in cases where a client has requested we follow particular guidelines for their account. If a client wishes to direct the voting of their securities with respect to a particular solicitation, they may do so by providing us with timely, written instructions. We only agree to this type of direction on a best efforts basis and to the extent consistent with our regulatory obligations.

If we feel there is a material conflict of interest in voting any proposal, or if a research analyst recommends a vote that either differs from the recommendation of company management or that differs from the recommendation of the Proxy Agent, the Portfolio Manager will review the matter and determine how it should be voted. The Chief Compliance Officer will review any such decisions to verify that the basis for the decision reflects the best interests of our clients.

In some instances, we may not vote a proxy on behalf of one or more clients. For example, a proxy vote might not be entered because the securities involved have been lent out under a client's securities lending program or because the Proxy Agent did not receive the proxy ballot in time.

For a copy of our proxy voting policies and procedures, or a copy of how we instructed your shares to be voted, please contact Daruma using the contact information on the Cover Page.

18. Financial Information

Daruma has no financial commitment that impairs its ability to meet contractual commitments.