

## Form ADV – PART 2A

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Brochure Date: March 30, 2017

This Brochure provides information about the qualifications and business practices of Advisory Research, Inc. (“ARI”). If you have any questions about the contents of this Brochure, please contact us at (312) 565-1414. 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 ARI, including a copy of its Form ADV Part 1, is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note registration as an Investment Adviser with the SEC does not imply any level of skill or training or ability with respect to the provision of investment advisory services.

## Item 2      Material Changes

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Advisory Research, Inc. ("ARI") has made amendments to our Form ADV Part 2A as follows:

- Item 4 to update our assets under management information and more clearly defined types of clients, though client types did not change.
- Item 6 to provide more information related to our private funds and current side by side management policies.
- Item 8 to provide information on the addition of two dedicated investment teams to our product offering since the last amendment. The investment team from Cupps Capital Management joined Advisory Research as did the U.S. Growth Equity Team and Michael Valentinas, Adam Steffanus, Heather Kidde and Sean Burns, formally with Credit Suisse, joined Advisory Research as the Global Equity team. In addition, risk of loss information for ETFs, REITS and 144A securities was added.
- Item 10 to provide more detailed information on our financial industry activities and affiliations, including more information on our private funds and registered mutual funds.
- Item 11 ARI's Code of Ethics was materially amended and includes new information.
- Item 12 regarding brokerage practices includes those practices of the new teams and provides information on trade rotation.

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## Item 4      Advisory Business

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Advisory Research, Inc. (“ARI”), a Delaware corporation, was founded in 1974. ARI is a wholly-owned subsidiary of Piper Jaffray Companies, a publicly traded company listed on the NYSE trading under the symbol PJC. For more information concerning ARI, please visit [www.advisoryresearch.com](http://www.advisoryresearch.com). As of December 31, 2016, ARI has statutory assets under discretionary management of \$8.7 billion and non-discretionary assets of \$88 million.

Discretionary	Assets Under Management (“AUM”)
U.S. Value Equity	\$2.1 billion
U.S. Growth Equity	\$0.3 billion
International Value Equity	\$1.3 billion
Global Equity	\$0.01 billion
Alternatives	\$0.3 billion

ARI’s Chicago based investment teams oversee a range of investment strategies across multiple asset classes.

Team	Strategies
U.S. Value Equity	Small Cap Value Small/Mid Cap Value All Cap Value
U.S. Growth Equity	Small Cap Growth Mid Cap Growth Large Cap Growth All Cap Growth Concentrated Growth
International Value Equity	International Small Cap Value Non-U.S. Smaller Companies Non-U.S. All Cap Value Global Small Cap Value Global Value Japan Value Emerging Markets Opportunities
Global Equity	U.S. Large Cap Core U.S. Small Cap Blue Chip Canada Global Sustainable Dividend US Sustainable Dividend European Sustainable Dividend
Alternatives	Energy

Information on each team’s strategies is included in the section of this brochure entitled “Methods of Analysis, Investment Strategies and Risk of Loss”

## **Advisory Services**

We provide discretionary investment management services to institutional and high net worth clients through separately managed accounts, collective investment trusts, open-end mutual funds, unregistered pooled investment vehicles, and model based accounts. Sub-advisory services are also provided to investment companies, wrap fee programs and model programs. ARI also provides nondiscretionary management of advisory accounts pursuant to model UMA agreements.

ARI primarily invest client funds in domestic equity securities (including common stocks of micro, small, mid, and large capitalization companies), bonds (including corporate, municipal, and government issued) and in foreign equity securities. These securities may include stocks traded on a U.S. national exchange, over-the-counter, foreign non-U.S. exchanges or other applicable venues. Additionally, we may invest client funds in other securities such as securities convertible to common stock, preferred stock, real estate investment trusts, American depository receipts, American depository shares, exchange-traded funds, warrants, covered calls, long puts, restricted securities and private placements. When purchasing or selling a security on a foreign exchange, the transaction is generally settled in local currency. Therefore, spot foreign currency transactions will be placed in your account for the purpose of trade settlement.

ARI seeks to provide advisory services that are tailored to the individual needs of each client. As a result, such clients may impose restrictions on investing in certain securities or types of securities by contacting their relationship manager and/or notifying ARI in writing. We manage such client portfolios in accordance with their investment policies and use reasonably available resources to comply with investment restrictions, when applicable. We reserve the right to reject or to terminate an account if we believe the restrictions or constraints imposed are not reasonable or prohibit effective management of the account. You should understand that the account restrictions or constraints may affect the performance of your account, either positively or negatively. Furthermore, accounts with restrictions may result in performance dispersion due to security holdings and cash levels differing from other accounts in the same investment strategy. The portfolio manager works to maintain dispersion at a minimum among the accounts; therefore, accounts with restrictions may receive an allocation of a similar non-restricted security and/or may contain higher or lower cash levels than other accounts in the same strategy.

## **Wrap Fee Programs**

ARI serves as a manager in various wrap fee programs sponsored by unaffiliated broker-dealers (Program Sponsor). The wrap fee sponsor typically is responsible for assisting the client in selecting managers and investment strategies and handles most aspects of the client relationship including identifying individual circumstances of the client. ARI receives a portion of the wrap fees paid by clients for its services. Portfolio management advice provided by ARI to clients in wrap fee programs does not generally differ materially from that provided to its separately managed accounts however one area which may differ is that trades in such programs are typically placed with the program's sponsoring broker dealer because the wrap-fee arrangement covers brokerage commissions effected through the Program Sponsor. Wrap program clients should be aware that because they effectively direct ARI to execute most trades through the Program Sponsor or the broker designated by the Program Sponsor through the terms of each program, execution quality may be adversely affected by various factors associated with client directed brokerage as noted in Item 12. ARI may direct that trade orders

for wrap accounts and other accounts that direct the use of a particular broker-dealer be executed following the completion of trades for ARI's other accounts that do not impose such restrictions. This could have potential adverse effects or beneficial effects because of changes that may occur in the market price for affected securities or other changes, particularly in volatile markets.

### **Model Programs**

As part of our services, ARI provides certain unaffiliated third-party investment advisers with model portfolios and updates to those model portfolios in accordance with a specified investment style for a fee. In turn, the third-party investment adviser, at its sole discretion, uses the model portfolios' recommendations to implement investment strategies to invest certain clients' assets. ARI does not manage or have discretion over any of the Clients' assets. ARI does not execute any security transactions and does not assume any fiduciary duties associated with these tasks.

### **Investment Manager Services**

ARI serves as investment manager to the Advisory Research Open-end Funds, which are a series of the Investment Managers Series Trust and to other unaffiliated sub-advised investment companies registered under the Investment Company Act of 1940. ("Registered Mutual Funds") With respect to the Registered Mutual Funds, we manage the assets of each Registered Mutual Fund based on their specific investment objectives and restrictions, as outlined in each Registered Mutual Fund's prospectus and statement of additional information, rather than on the individual needs and objectives of the individual shareholders in the Registered Mutual Funds. Prior to investing, shareholders should carefully review the applicable prospectus to fully understand the investment objectives and risks pertaining to the Registered Mutual Funds.

We serve as investment manager to the ARI Small Cap Value Collective Investment Trust Fund sponsored by Comerica Bank & Trust, NA. pursuant to an investment management agreement and receive a fee for managing the investment portfolio. The Fund has not been registered under federal or state securities laws and is subject to an exemption provided by Rule 3(c)(11) of the Investment Company Act of 1940. The Fund is only available for investment by qualified retirement plans and are not for sale to the general public.

ARI serves as the general partner or managing member of the following private funds:

- Advisory Research All Cap Value Fund, L.P.
- Advisory Research Energy Fund, L.P.
- Advisory Research Global Small Cap Fund, L.P.
- Advisory Research International Value Fund, L.P.
- Advisory Research Micro Cap Value Fund, L.P.
- Advisory Research Mid Cap Growth LLC
- Advisory Research Non US Smaller Companies LP
- Advisory Research Small Cap Growth LLC
- Advisory Research Small Cap Value Fund II, L.P.
- Advisory Research Small Cap Value Fund, L.P.
- Advisory Research Small/Mid Cap Value Equity Fund II, L.P.
- Advisory Research Vision Fund LLC

- ARI 1740 Fund, L.P.
- Endeavor Fund LLC
- The S&P 500 Index Equally Weighted Fund, L.P.

Investors in the Funds must be “accredited investors” as defined in Regulation D of the Securities Act of 1933, as amended, or must be “qualified purchasers” within the meaning of Section 2(a)(51) of the Investment Company Act of 1940. Prospective investors are provided with a confidential Offering Memorandum and other documentation that detail the investment objectives, risks, fees, and other important information about the selected Private Fund. It is important that each potential qualified investor fully read the offering materials

## Item 5      Fees and Compensation

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### Investment Management Fees (based on percentage of assets under management)

Our advisory fees are generally based on a percentage of assets under management, and exclude costs that may be imposed by your custodian, broker-dealer, and other third party managers. These additional costs may include custodial fees, brokerage commissions, transaction fees, odd lot differentials, transfer taxes, wire transfer and electronic fund fees and other miscellaneous fees and taxes on brokerage accounts and securities transactions and other related costs and expenses. Additionally, securities traded on a non-U.S. exchange may incur additional fees and expenses.

ARI reserves the right to negotiate the fee with all its clients, and charge a higher or lower fee than the fee described below. Investment management fees are set forth in our investment management agreement executed with each new Client. Our management fee is typically billed and payable quarterly in arrears of services rendered, based on a calendar quarter, unless the client directs otherwise. For accounts opened during a quarter, the initial fee will be pro-rated.

The value of the client’s account, as calculated by our client accounting system, Advent APX, is used to compute advisory fees unless specified otherwise within the advisory agreement. Advent APX calculates security valuations based upon information that is received from third party pricing vendors. Your custodian or consultant may use a different third party pricing vendor to value your account. Due to some disparities among third party pricing vendor security prices, account values as reported by us, your custodian and/or your consultant may vary. In most cases ARI will generate an invoice quarterly in arrears and submit that invoice either to the client or a client’s designated agent for payment. In some cases, clients elect to permit ARI to deduct management fees from custodial accounts electronically. In the event that ARI is permitted to deduct management fees electronically, ARI will also deliver an informational copy of the invoice to the client or his/her designated agent. Accounts managed by ARI are held in custody by a third party bank or brokerage of client’s choosing. Clients’ custodians will deliver a periodic (at least quarterly) account statement directly to Clients. The statements will include all transactions that took place in the account during the period covered and reflect any fees deducted and paid to ARI. Clients are encourage to review their account statement for accuracy and compare them to the reports received by ARI. Should there be any discrepancies Clients’ should rely on the information in their custodian’s account statement.

**Fee Schedules for Separately Managed Accounts.** The following fees are for separately managed accounts invested in the following products/styles.

Strategy	Assets Under Management	Annual Fee Rate
Small Cap Value	First \$20 million	1.00%
	Assets > \$20 million	0.80%
Small/Mid Cap Value	First \$20 million	1.00%
	Assets > \$20 million	0.80%
All Cap Value	First \$5 million	1.00%
	Next \$15 million	0.75%
	Assets > \$20 million	0.50%
Small Cap Growth	First \$25 million	1.00%
	Next \$25 million	0.90%
	Assets > \$50 million	0.80%
Mid Cap Growth	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%
Large Cap Growth	First \$25 million	0.70%
	Next \$55 million	0.60%
	Assets > \$75 million	0.50%
All Cap Growth	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%
Concentrated Growth	First \$25 million	0.90%
	Next \$25 million	0.85%
	Assets > \$50 million	0.80%
International Small Cap Value	First \$20 million	1.00%
	Assets > \$20 million	0.80%
Non-U.S. Smaller Companies	All Assets	1.15%
Global Value	First \$20 million	1.00%
	Assets > \$20 million	0.80%
Japan Value	First \$20 million	1.25%
	Assets > \$20 million	1.00%
Emerging Market Opportunities	All Assets	1.15%
BDC	All Assets	1.00%
Alternatives	All Assets	1.5% and a 20% performance allocation with a “high-water mark”
U.S. Large Cap Core	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%
U.S. Small Cap Blue Chip	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%
Canada	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%
Global Sustainable Dividend	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%
U.S. Sustainable Dividend	First \$25 million	0.85%
	Next \$25 million	0.75%



# ADVISORY RESEARCH

INVESTMENT MANAGEMENT

	Assets > \$50 million	0.65%
European Sustainable Dividend	First \$25 million	0.85%
	Next \$25 million	0.75%
	Assets > \$50 million	0.65%

## Wrap Program Fee

Fees for the wrap fee programs are calculated by the Sponsor. ARI will not provide an invoice to the clients. It is the Sponsor's responsibility to handle collection of client fees. ARI is compensated directly by the Sponsor based upon the assets managed within these relationships. Clients participating in these programs should refer to the Sponsor's program brochure and agreements for information regarding additional fees and expenses. Although ARI does not bill its fees in advance, sponsors of wrap fee programs for which ARI serves as a manager may do so. In the case of a wrap fee program in which fees are billed in advance, and in the event a client's advisory contract is terminated before the end of the billing period, clients are refunded any prepaid fees from the wrap fee program's sponsor.

## Model Program Fee

ARI is paid an annual fee from each model program sponsor, which is negotiable and varies depending on the model and services provided. In most cases, the fee will be paid to us quarterly in arrears and will be based on the aggregate fair market value of all of the model program clients' assets that are invested in accordance with the model portfolios. The Model Program Sponsor calculates the fee and pays ARI accordingly.

## Registered Mutual Fund Fee

For each Registered Mutual Fund, ARI is paid an annual management fee ranging from 0.40% to 0.95% depending on the type of Registered Mutual Fund. The fees are either based on the portion of assets managed by us, or the net asset value of the Registered Mutual Fund, which are calculated by each Registered Mutual Fund and paid to us monthly in arrears. Specific management fee and related expense information can be found in the prospectus and statement of additional information for each Registered Mutual Fund.

When we invest in shares of a Registered Mutual Fund we advise or sub-advise, we do not charge a separate account investment management fee. Instead, we exclude those mutual fund assets when we calculate the investment management fees charged to you.

With respect to non affiliated mutual funds, exchange traded funds and other collective investment vehicles in separately managed accounts, ARI's fees are in addition to advisory fees which may be charged by such mutual funds and collective investment vehicles as per the fund's prospectus. .

## Private Fund Fees

We serve as the general partner or managing member of the Private Funds and as the investment adviser to each pursuant to investment advisory agreements and receive a fee for managing the

investment portfolios. The Confidential Offering Memorandum or other offering documents for each of the Private Funds provide a description of the fees and expenses. Management fees for these Private Funds generally range from 0.40% to 1.50% per annum and several of the partnerships also compensate ARI with a 20% Performance Allocation as further defined in Item 6 below. When requested, related client accounts may be aggregated in order to determine fee breakpoints. Although assets held in the Private Funds may be included in asset totals for the purpose of such aggregation, the fees charged to clients in the Private Funds will not be affected by any breakpoints that may be determined to apply to clients for whom we manage separate accounts.

### **Other Fees and Expenses**

Clients should understand that the different fees discussed above are specific to what ARI charges and do not include certain charges imposed by third parties such as custodial fees and mutual fund fees and expenses. Client assets also are subject to transaction fees, brokerage fees and commissions, retirement plan administration fees (if applicable), mutual fund deferred sales charges and 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. For investments we make for Clients in mutual funds and exchange traded funds ("ETFs"), Clients are charged internal management fees, distribution fee and other expenses, which are described in each fund's prospectus.

Clients should understand that all custodial fees and any other charges, fees and commissions incurred in connection with transactions for a Client's account are generally paid out of the assets in the account and are in addition to the investment management fees charged by us. Please refer to Item 12 of this Brochure for additional important information about ARI's brokerage and transactional practices, including considerations for selecting broker-dealers for Client transactions.

Clients should review the fees charged to their account(s) to fully understand the total amount of all fees charged. Clients should understand that lower fees for comparable services may be available from other investment advisory firms.

### **Additional Information Regarding Our Fees**

ARI has waived or reduced and may, in the future, waive or reduce the management fee and/or performance fee with respect to any Client, or with respect to any individual investor in a Private Fund, including but not limited to accounts for our employees and/or family members. In addition ARI may negotiate fees with future Clients that are different than the fees discussed herein. Some of the factors relevant to charging different fees to those fees stated herein are: account size, the investment strategy and the nature of the relationship between the potential Client and ARI.

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

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ARI has entered into performance fee arrangements with several qualified clients. In these cases, such fees are subject to individualized negotiation with each such client. ARI will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including

the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, ARI shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for ARI to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. ARI has implemented procedures designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

- Accounts within a strategy are generally managed to the corresponding strategy's model portfolio, subject to client-imposed limitations.
- ARI regularly reviews each investment strategy's model portfolio versus individual client accounts. In this review, position sizes for client accounts are compared to the model weights.
- The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies.
- ARI has trade allocation policies and procedures designed to ensure that all clients are treated fairly and equally and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## Item 7      Types of Clients

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ARI provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trust programs, foreign funds such as Undertakings for Collective Investment in Transferable Securities ("UCITS Funds"), and other U.S. and international institutions. As previously noted, ARI also acts as a sub-advisor in wrap fee and model programs.

We generally do not have absolute minimum requirements regarding the amount of assets needed to open or maintain an account. We do have preferred minimum account sizes of \$1,000,000 which may be waived or lowered in our discretion based on the character of the account. These minimums will generally not apply to wrap or other wire house consulting accounts which tend to have lower thresholds. Each Private Fund has a minimum for initial and subsequent investments, which is fully described in each Fund's Offering Memorandum. Registered Mutual Funds outline their minimum investment levels in their respective prospectus.

If a Client's account is a pension or other employee benefit plan governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), ARI acknowledges that we are a fiduciary to the plan under Section 3(38) of ERISA. In providing our investment management services, the sole standard of care imposed upon us is to act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. ARI will provide certain required disclosures to the "responsible plan fiduciary" (as such term is defined in ERISA) in accordance with Section 408(b)(2), regarding the services we provide and the direct and indirect compensation we've received by such clients. Generally,

these disclosures are contained in this Form ADV Part 2A, the client agreement and in separate ERISA disclosure documents, and are designed to enable the ERISA plan's fiduciary to: (1) determine the reasonableness of all compensation received by ARI; (2) identify any potential conflicts of interests; and (3) satisfy reporting and disclosure requirements to plan participants.

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

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### **Investment Teams**

As explained above, ARI's investment teams oversee a range of investment strategies across multiple asset classes. Each investment team employs their own research process, examining various items of financial and economic data that the investment team deems relevant. Each team operates autonomously to identify investment opportunities in order to generate strong long-term investment performance.

There is no guarantee that a client's account will achieve its investment objective, or that a client's account will not lose value. Investing involves risk of loss that clients should be prepared to bear. Each investment team's ability to choose appropriate investments for an account has a significant impact on the ability to achieve an account's investment objective.

### **U.S. Value Equity Team**

The Advisory Research U.S. Value Equity Team manages three equity investment strategies, including Small Cap Value, Small-Mid Cap Value, and All Cap Value. The team's strategies seek long-term capital appreciation by investing in U.S.-listed stocks selected using an absolute value approach. The strategies utilize a bottom-up security selection process based on in-house research. The companies that are chosen for the portfolio are those with undervalued assets or stocks that have been abandoned by the institutional investment community.

The portfolio construction process uses a combination of quantitative and qualitative analysis to arrive at a diversified portfolio of what the team believes are attractively valued securities. The team searches for profitable, asset-rich companies with appropriate leverage that are trading at a discount to their assessment of net asset value. In conducting research, the team's primary information sources include, database screening, broad and industry specific publications, reviews of company activities and interviews with management, annual reports, prospectuses and filings with the SEC, and company press releases.

The team performs extensive quantitative financial and business analysis to determine the possible risk of an investment. To do so, significant time is spent revaluing both the assets and the liabilities to determine the net asset value of the company. Then, with a focus on the upside potential, the team researches the company to see if it has an identifiable path to unlock and enhance value.

### **U.S. Growth Equity Team**

The Growth team manages client assets in it Large Cap Growth, Mid Cap Growth, Small Cap Growth, All Cap Growth, and Concentrated Growth strategies. These investment strategies

invest primarily in companies that are experiencing, or that the team feels are positioned to experience, above average earnings growth. The team mainly utilize both U.S. equity securities and ADRs for these investment strategies. However, the team also invests Client assets in other securities, such as ETFs or derivatives, such as options, if they determine such investments fit within the objectives of each strategy and our Clients. The Growth team also manages client assets in Long/Short Strategies. These strategies are not offered to the general public and are the investment strategies of the team's affiliated Private Funds. Details regarding these strategies, our methods of analysis and the risks involved are outlined in each Private Fund's offering documents and should be read carefully by investors.

The Growth team's most fundamental philosophical belief is that stock prices are more correlated to earnings growth over the intermediate to long term than any other variable, so most of the team's efforts are focused on identifying earnings growth and harbingers of earnings growth. The team's focus is identifying situations where potential growth would be much more substantial than the market expects.

The Growth team's overall investment analysis process utilizes both fundamental and technical analysis and emphasizes certain investment themes. The team uses its proprietary Comprehensive Equity Portfolio Platform (CEPP©) that Andrew Cupps has developed over his investment career. CEPP© serves as a repository for research history and investment theses and facilitates:

- Development of secular growth themes
- Multi-discipline stock discovery process
- Systematic evaluation of candidates using a five-perspective approach

The end product is a diversified portfolio of attractive stocks with compelling earnings growth and beneficial positioning within industry trends.

### **International Value Equity Team**

The International Value Equity Team manages various equity investment strategies, including BDC, Emerging Markets Opportunities, International Small Cap Value, Japan Value, Non-U.S. Smaller Companies. The team's strategies seek long-term capital appreciation by investing primarily in equity securities selected using a value approach. The strategies utilize a bottom-up security selection process based on in-house research. The companies that are chosen for the portfolio are those that we believe have undervalued assets or stocks that have been abandoned by the institutional investment community.

The portfolio construction process uses a combination of quantitative and qualitative analysis to arrive at a diversified portfolio of what the team believes are attractively valued securities. The team seeks to identify companies that trade at attractive valuations relative to net asset value, with low probability of financial distress, adequate liquidity, and that are profitable. In conducting research, the team's primary information sources include, database screening, broad and industry specific publications, reviews of company activities and interviews with management, and annual reports.

The team performs extensive quantitative financial and business analysis to determine the possible risk of an investment. To do so, significant time is spent revaluing both the assets and

the liabilities to determine the net asset value of the company. Then, with a focus on the upside potential, the team researches the company to see if it has an identifiable path to unlock and enhance value.

### **Global Equity Team**

The Global Equity Team manages client assets in the Sustainable Growth and Sustainable Dividend strategies. These strategies are concentrated, low-turnover, high active share equity portfolios. The Sustainable Growth strategies target growing companies, with improving economic profit and strong sentiment, which are trading at a reasonable price. The Sustainable Dividend strategies focus on high quality, blue chip companies with deep, defensive moats and sustainable cash flows, which are trading at a discount to their intrinsic value. The team employs a disciplined investment process that includes a multi-factor screening process whereby companies are systematically ranked on key investment attributes such as competitive advantage, capital discipline, relative valuation, intrinsic valuation and market sentiment. Next the investment team performs due diligence on the top ranking names to identify suitable holdings for each portfolio and then uses a commercial risk model to determine individual stock weights in the portfolio.

### **Alternatives Team**

The Alternatives Team manages client assets in the Energy, Energy Long/Short and Natural Gas strategies. The strategies are value-based investing across the energy capital structure with an emphasis on purchasing small and mid-cap securities at prices below their net asset value. The team uses a disciplined, fundamental research driven process that seeks to take advantage of market inefficiencies in the small to mid-cap investment universe. The Energy Long/Short strategy is centered on companies that drill for and discover both natural gas and oil in traditional and non-traditional fashions. The strategy is primarily invested in companies that have potential reserves and acreage in the United States. However, a portion of the strategy may be invested in companies with assets located outside of the United States. The Energy Long/Short strategy will be long-biased, and may at certain times be long only.

### **Risk of Loss**

Risk is inherent in all investing. A summary description of certain principal risks of investing in ARI strategies is listed below. Before you decide whether to invest with ARI, carefully consider these risk factors associated with your account, which may cause you to lose money. There can be no assurance that your account will achieve its investment objective.

**Market Risk.** The market price of a security or instrument may decline, sometimes rapidly or unpredictably, due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic or political conditions throughout the world, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. The market value of a security or instrument also may decline because of factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.



**Equity Risk.** The value of the equity securities held in your account may fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held in your account participate, or factors relating to specific companies in which your account is invested.

**Foreign Investment Risk.** The prices of foreign securities may be more volatile than the prices of securities of U.S. issuers because of economic and social conditions abroad, political developments, and changes in the regulatory environments of foreign countries. In addition, changes in exchange rates and interest rates may adversely affect the values of your account's foreign investments. Foreign companies are generally subject to different legal and accounting standards than U.S. companies, and foreign financial intermediaries may be subject to less supervision and regulation than U.S. financial firms. Foreign securities include ADRs, EDRs and GDRs. Unsponsored ADRs and GDRs are organized independently and without the cooperation of the foreign issuer of the underlying securities, and involve additional risks because U.S. reporting requirements do not apply. In addition, the issuing bank may deduct shareholder distribution, custody, foreign currency exchange, and other fees from the payment of dividends.

**Emerging Market Risk.** Many of the risks with respect to foreign investments are more pronounced for investments in issuers in developing or emerging market countries. Emerging market countries tend to have more government exchange controls, more volatile interest and currency exchange rates, less market regulation, and less developed economic, political and legal systems than those of more developed countries. In addition, emerging market countries may experience high levels of inflation and may have less liquid securities markets and less efficient trading and settlement systems.

**Currency Risk.** The values of investments in securities denominated in foreign currencies increase or decrease as the rates of exchange between those currencies and the U.S. Dollar change. Currency conversion costs and currency fluctuations could erase investment gains or add to investment losses. Currency exchange rates can be volatile and are affected by factors such as general economic conditions, the actions of the United States and foreign governments or central banks, the imposition of currency controls, and speculation.

**Management and Strategy Risk.** The value of your investment depends on the judgment of ARI about the quality, relative yield, value or market trends affecting a particular security, industry, sector or region, which may prove to be incorrect. Investment strategies employed by ARI in selecting investments for your account may not result in an increase in the value of your investment or in overall performance equal to other investments.

**Sector Risk.** From time to time, ARI may invest a significant amount of your account in certain sectors of the economy. Each of those sectors may be subject to specific risks. These risks include governmental regulation of the sector and governmental monetary and fiscal policies, which may impact interest rates and currencies and affect corporate funding and international trade. Certain sectors may be more vulnerable than others to these factors. In addition, market sentiment and expectations toward a particular sector could affect a company's market valuation and access to equity funding.

**Small-Cap and Mid-Cap Company Risk.** The securities of small-capitalization and mid-capitalization companies may be subject to more abrupt or erratic market movements and may have lower trading volumes or more erratic trading than securities of larger, more established companies or market averages in general. In addition, such companies typically are more likely

to be adversely affected than large capitalization companies by changes in earning results, business prospects, investor expectations or poor economic or market conditions.

**Preferred Stock Risk.** Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stock, dividends and a fixed share of the proceeds resulting from a liquidation of the company. The market value of preferred stock is subject to company-specific and market risks applicable generally to equity securities and is also sensitive to changes in the company's creditworthiness, the ability of the company to make payments on the preferred stock, and changes in interest rates, typically declining in value if interest rates rise.

**Convertible Securities Risk.** Convertible securities are subject to market and interest rate risk and credit risk. When the market price of the equity security underlying a convertible security decreases the convertible security tends to trade on the basis of its yield and other fixed income characteristics, and is more susceptible to credit and interest rate risks. When the market price of such equity security rises, the convertible security tends to trade on the basis of its equity conversion features and be more exposed to market risk. Convertible securities are typically issued by smaller capitalized companies with stock prices that may be more volatile than those of other companies.

**Growth and Value Investing Risks.** Growth and value stocks tend to be in favor and out of favor with investors at different times and each may underperform other asset types during given periods. A growth company may never achieve the earnings growth ARI anticipated. The price of a value company's stock may never reach the level ARI considers its intrinsic value.

**Rule 144A Risk.** Equity securities which are "restricted" within the meaning of Rule 144A under the Securities Act which provides a safe harbor exemption from certain registration requirements and which allows resale of such securities to qualified institutional buyers, under certain conditions.

**ETF Risk.** ETFs are professionally managed pooled vehicles that invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The risk of owning an ETF generally reflects the risks of owning the underlying securities the ETF holds. Additionally, because ETF prices are set partially by investor demand, their prices may be higher or lower than the value of the securities they own. ETF risk can also be significantly increased for funds concentrated in a particular sector of the market, or that primarily invest in small cap or speculative companies, use leverage (i.e., borrow money) to a significant degree, or concentrate in a particular type of security (i.e., equities), rather than balancing the fund with different types of securities. When investing in an ETF, clients will bear additional expenses based on their pro rata share of the ETF's operating expenses, including the potential duplication of management fees. Clients will also incur brokerage costs when purchasing ETFs.

**REIT Risk.** Risks associated with real estate investment trusts ("REITs") include: real estate industry risk which is the risk that REIT share prices will decline because of adverse developments affecting the real estate industry and real property values; real estate values can be affected by a variety of factors, including supply and demand for properties, the economic health of the country or of different regions, and the strength of specific industries that rent properties; investment style risk which is the risk that returns from REITs, which typically are small or medium capitalization stocks, will trail returns from the overall stock market; and interest



rate risk which is the risk that changes in interest rates may hurt real estate values or make REIT shares less attractive than other income-producing investments.

The risks surrounding investments in the Private Funds and Registered Mutual Funds are outlined in their respective offering documents, which should be reviewed carefully prior to investing.

## Item 9      Disciplinary Information

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

## Item 10      Other Financial Industry Activities and Affiliations

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ARI is affiliated with Piper Jaffray & Co., Piper Jaffray Investment Management, LLC and PJC Capital Partners LLC. Piper Jaffray & Co. provides ARI with various resources and services, including information technology, compliance, human resources, and legal and accounting services. In order to address a potential conflict of interest resulting from the affiliation between ARI and Piper Jaffray & Co., a registered broker-dealer and investment advisor, it is ARI's policy that it will not utilize such brokerage services when placing trades for client accounts.

ARI's CEO also serves as the Head of Asset Management for Piper Jaffray Companies. To address any potential conflicts of interest associated with his role, Mr. Crawshaw is subject to the Codes of Ethics of both ARI and Piper Jaffray.

ARI serves as an advisor to various Advisory Research Funds, which are a series of the Investment Managers Series Trust, and a general partner or managing member to commingled limited partnerships and limited liability companies which are managed by various investment teams. Certain ARI employees are registered representatives of Piper Jaffray & Co., a registered broker dealer for the purpose of marketing the Advisory Research Funds.

A conflict of interest may arise if ARI recommends the Funds to its clients and also own units of the Funds as do several of ARI employees. ARI manages its own assets and employee assets along with client assets and may be incented to provide preferential treatment to its employee and internal accounts. To address this potential conflict ARI has developed procedures that provides for these accounts to be treated similarly to any other client account and in a manner that ARI believes does not conflict with the interests of any client.

Advisory Research is not registered with any foreign financial regulatory authority. Advisory Research has been approved by the Central Bank of Ireland (the "Central Bank") to act as an investment manager to Irish authorized Undertakings for Collective Investment in Transferrable Securities. The Central Bank supervises Irish Funds and any investment manager appointed to advise them must meet certain criteria. Advisory Research is not registered with the Central Bank and the Central Bank does not supervise Advisory Research.

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

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### **Code of Ethics**

Acknowledged by all employees at the inception of their employment and annually thereafter, ARI's Code of Ethics includes general standards of conduct and more specific provisions designed primarily to protect the interest of ARI's clients as well as the reputation of ARI as a firm committed to upholding high ethical standards.

A copy of ARI's Code of Ethics is available to any client or prospective client upon request by contacting ARI's Compliance Department at (312) 565-1414.

Contents of the Code include:

- Standards of Conduct
- Policies for insider trading
- Policies for employees' personal securities transactions
- Policies on gifts, entertainment & contributions
- Confidentiality policies

### ***Investing in the Same Securities as Clients.***

Clients should anticipate that ARI employees and their family members will buy or sell the same securities for their personal accounts which are identical to those recommended to clients or that clients own. It is ARI's policy that employees may not trade in a security if the security has been bought or sold on that day or in the previous seven (7) days thus preventing employees from benefitting from transactions placed on behalf of our clients. At no time will ARI or its affiliates put personal interests before that of its clients', or intentionally disadvantage clients when executing trades.

It is ARI's policy that we will not conduct any principal or agency cross transactions between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

In general, ARI does not conduct internal cross transactions but on occasion may do so if ARI believes that such transactions are consistent with investment objectives of, and in the best interest of, the clients involved. In the circumstance where ARI does conduct an internal cross transaction, ARI may have conflicting loyalties in such transactions, since it represents both the client-seller and client-buyer. ARI has adopted policies and procedures to address the manner in which cross trades are conducted including (1) Cross trades will be a purchase or sale, for no consideration other than cash payment against prompt delivery of a security for which market quotations are readily available, that is (2) executed through an independent broker, and that is (3) executed at the independent current market price of the security. For the purpose of this policy, the "current market price" is generally the last sale price of a reported security at the time

the order is presented. If there are no reported transactions that day, the current market price may be determined as the average of the highest current independent bid and lowest current independent offer for such security. In limited circumstances, thinly traded or low volume securities have a spread that is wide enough that to use the last sale price as the current market price may not be in the best interest of both clients. In these situations the average of the National Best Bid and Offer is used as the current market price.

ARI may also utilize a third party VWAP crossing network to execute trades in order to ensure low commission rates and no market impact. These “blind” transactions are designed to provide anonymous negotiations without identifying the parties and function in a manner similar to the operation of an exchange. The VWAP cross electronically matches all buyers and sellers (not just ARI clients) and executes order at the end of the day at a price equal to the full-day VWAP. ARI is not aware whether any inadvertent crosses have occurred between its own clients. The positions are at risk during the period of time they are matched in the crossing network and there are risks that all trades may not be executed using the crossing network.

***Trading Securities At or About the Same Time as Clients.***

Our Code prohibits employees or related persons from personally purchasing or selling a security on the same day as a client transaction or is being considered for purchase or sale for a client, within the next seven (7) days with the exception of an unknown client deposit and withdrawals. Employees with accounts managed by us with full discretion similar to other client accounts are not subject to the personal trading requirements with the exception of initial public offerings. These accounts are considered client accounts and are managed consistently with that of other client accounts pursuant to the selected style and are therefore subject to the same aggregation and pro-rata allocation as all other clients. Employee accounts do not receive preferential treatment in the trade allocation process.

## **Item 12      Brokerage Practices**

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In selecting a broker/dealer through which to purchase or sell securities, ARI will look for the most favorable combination of transaction cost, transaction ability, research and other services. In connection, price and commissions, execution ability, clearance procedures, and the nature and quality of research and other brokerage services provided by the broker/dealer are considered in using a specific broker.

In a model portfolio arrangement with a sponsor of a managed account program, ARI is ultimately not responsible for determining which securities to buy or sell and is not responsible for executing such trades for the sponsor’s client accounts. The sponsor is responsible for exercising investment discretion, executing trades and seeking best execution.

**Selecting Brokers & Use of Soft Dollars.**

ARI also has relationships with particular brokers who provide research and other related services through soft dollar arrangements with ARI. These soft dollar arrangements generally constitute third party research and research-related products and services. ARI may also acquire services which have a mixed use, in addition to research. In the case of mixed use items, ARI allocates a percentage ratio of soft and hard dollars to the product / service acquired. This allocation is based on a good faith determination of the portion of the product / service that it is

considered to be used in the investment decision-making process versus the portion that is used by ARI for non-investment decision-making purposes. The portion that is considered to be used for investment decision-making may be paid for using soft dollars, while the non-investment decision-making portion is paid for with hard dollars. In such cases, ARI may have an incentive to allocate a higher soft dollar portion of the allocation based on its interest in receiving such products or services; however, ARI has established policies and procedures to periodically review its allocation process and resulting allocations.

When ARI utilizes client brokerage commissions (or markups or markdowns) to obtain research or other products or services, it receives a benefit because it does not have to pay for the research, products or services. As a result, ARI may have an incentive to select or recommend a broker-dealer based on its interest in receiving these products or services, rather than on its clients' interest in receiving most favorable execution. ARI will only choose such broker/dealers when the execution complies with the principles of best execution. Additionally, ARI utilizes soft dollar benefits to service all its accounts and does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. ARI may manage assets for clients who have established a wrap account arrangement with a wrap sponsor. Transactions for these types of accounts are generally executed directly with the wrap sponsor. The wrap sponsor will execute transactions for its clients without additional transaction costs (i.e., commissions) as its clients pay a bundled fee to the wrap Sponsor that includes costs such as trading commissions and custodial fees as well as other fees. In these instances, such clients will receive the benefit of products and services furnished through other client's commissions as transactions for these accounts are generally executed by brokers that do not provide products and services to us.

In addition to traditional soft dollar arrangements, ARI may participate in commission sharing arrangements ("CSA"). A CSA is a type of soft dollar arrangement that allows ARI to establish a commission account with an executing broker-dealer. Transactions are effected with the broker-dealer at an agreed upon commission rate. The broker-dealer allows ARI to accumulate credits from a portion of the commission rate, and at a later time ARI requests the broker-dealer to use credits set aside in ARI's commission account to pay an independent research provider for Products and Services that fall under the protection of Section 28(e).

We also periodically obtain opinions from industry experts on industries in general as well as on specific companies or technologies, and these providers may be compensated by a broker-dealer on our behalf. In many cases, third-party research and other services are provided by means of orders executed through broker-dealers unrelated to the provider of research or other services.

### **Selecting Brokers & Referral Arrangements**

ARI may select as a broker/dealer for client transactions, broker/dealers that have affiliated entities who have referred or may refer clients to ARI. In such cases, ARI may have an incentive to select or recommend a broker-dealer based on its interest in receiving referrals, rather than on the clients' interest in receiving more favorable execution. Notwithstanding, ARI will only choose such broker/dealers when the execution complies with the principles of best execution. ARI has no formal relationships or agreements with any broker/dealer or associated person which requires ARI to direct, or which compensates ARI for directing, any specified level of brokerage/commissions to any broker/dealer.

### **Client-Directed Brokerage**

With respect to ARI's management services, clients generally are required to give ARI discretion and authority to manage their assets under ARI's supervision. Consequently, ARI determines which securities to buy or sell, the broker or dealer through which the securities will be bought or sold, and the commission rates at which transactions are affected. Any limitations or restrictions, with respect to the exercise of this investment discretion, will be those established by the client, in writing, at the commencement of the advisory relationship or thereafter.

ARI's clients may designate the broker-dealer through which they want their securities transactions executed. ARI will review such designations to assess whether they are inconsistent with ARI's duty of best execution for the client. It should be noted that a client's direction to use a particular broker may limit or eliminate ARI's ability to (i) negotiate commissions on the client's behalf, (ii) obtain best price and execution, (iii) include the client's orders in bunched orders, (iv) obtain certain securities or participate in certain transactions on behalf of the client, or (v) place orders for client transactions in as timely a manner as orders are placed for ARI's other clients.

Clients involved in wrap programs or similar directed brokerage arrangements should understand that client transactions generally are expected to be executed only with the broker-dealer providing custodial and other services, generally the Sponsor. No assurance can be provided that transactions executed through the broker-dealer providing custodial and other services will result in the best execution available to the client. Transactions executed for these accounts may be less favorable in some respects than those accounts whose trades are not executed through the broker-dealer providing custodial services. This is because we have no ability to negotiate price or take advantage of combined orders or volume discounts. Depending on a variety of factors, including the amount of the combined fee, the trading activity and the value of custodial and other services, the combined fee may or may not exceed the total cost of such services if obtained separately. Under certain circumstances, we may direct client securities transactions to a broker-dealer or intermediary other than the designated broker-dealer or custodian if, in our opinion, we believe that such direction is in the client's best interest.

### ***Aggregating Trading for Multiple Client Accounts***

ARI's decisions to execute trades must include a decision on position size consistent with the investment objectives, guidelines and restrictions of its clients. From time to time, it may be appropriate for more than one client account to trade in the same securities at the same time in a "bunched order". In the case of bunched orders, allocations to multiple clients must be based on fair and equitable treatment of all clients, taking the following factors into consideration, among others:

- Investment objectives and requirements.
- Risk-management requirements.
- Adherence to any limits as defined in the applicable client's investment guidelines.
- Capital availability in each client account for trade of type under consideration.
- Liquidity/availability of securities.
- Current sector and/or security diversification in each client's account.

### ***Brokerage Practices***

Allocations may also reflect the judgment of the investment team as to the specific needs of an account. The portfolio managers generally establish an objective as to the amount of stock in a bunched order to be allocated to each client account, such position generally being expressed as a percentage of the assets in the client's account. The liquidity of some stocks is limited, and the stock initially purchased at the target price may be insufficient to achieve the minimum position objective established by the portfolio manager. In addition, it may not be possible that enough additional stock may be purchased at the target price to achieve the portfolio manager's minimum position for each account. Therefore shares of a purchased block may be allocated randomly or pro-rata among accounts with each selected account being allocated the minimum percentage position prior to shares being allocated to another account.

### ***Note for the U.S. Growth Equity Team***

Certain Proprietary Accounts are driven by a pre-determined criteria framework rather than by a portfolio manager. For these accounts, trades are generated by a software code that defines the criteria based on a quantitative strategy and then is executed by the broker using an automated VWAP methodology that randomly spreads the trades over the trading day. Due to this trading method, all trades for these accounts are placed independent of other Client trades whether or not they are for the same security.

## **Item 13      Review of Accounts**

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The ARI portfolio manager(s) responsible for an investment strategy continuously assess the securities held by clients in that strategy. This includes reviewing objectives to assure they are appropriate and accounts are managed in a manner consistent with the objectives of the client. Asset allocation, diversification, individual holdings and performance will be reviewed.

Cash, account holdings and share quantities are reviewed daily against custodial data feeds by the operations department. Data feeds from many of our clients' selected custodians are obtained through a third party, and are used to compare custodial data to our client account records as frequently as daily. In some instances, variances may exist between final audited custodial information and the information we obtain via such data feeds. All variances are typically reconciled to the applicable account no later than each month-end. Additional reconciliation or client specific reconciliation worksheets are completed for certain clients upon request.

Clients generally receive statements of all holdings and positions in their portfolio on a monthly basis and such other information or reports as may be required by the relevant client account's governing documents. ARI will furnish any additional or supplemental reports a client may reasonably request. Investment company clients of ARI receive reports as requested by their boards or as required by relevant laws, including the Investment Company Act of 1940, as amended. You may also receive from us periodic letters and commentaries discussing the outlook for the markets and your portfolio.

Additionally, investors in the Private Funds receive an annual K-1 and a copy of the annual Fund audit. Wrap program relationships authorize us to offer continuous investment management services to wrap program clients. For wrap program and model portfolio program accounts, ARI



reviews these accounts on a regular basis for conformity with the model. These clients generally receive portfolio holdings and performance reports from the Sponsor. ARI may provide Sponsors reports that are not regularly sent to clients regarding performance, portfolio holdings and other portfolio information.

It is each client's responsibility to notify us of any changes in your investment objectives and/or financial situation. We encourage you to review investment objectives and account performance with us on an annual basis. We offer to schedule at least one meeting per year with you to review account performance and investment objectives. We believe these meetings, which may be held at our client's office, our office, or via telephone conference, are important in aligning our individualized portfolio strategy with our client's investment needs.

## Item 14      Client Referrals and Other Compensation

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### ***Compensation for Client Referrals***

ARI may compensate a limited number of U.S. or non-U.S. third party referral sources who, on a fully disclosed basis (in compliance with Rule 206(4)-3), receive a portion of ARI's standard advisory fees which are paid by the client, to ARI.

From time to time ARI may receive referrals from particular brokers who provide research and other related services through soft dollar arrangements with ARI. As disclosed previously, ARI will only choose such broker/dealers when the execution complies with the principles of best execution. ARI has no formal relationships or agreements with any broker/dealer or associated person thereof which requires ARI to direct, or which compensates ARI for directing, any specified level of brokerage/commissions to any broker/dealer.

ARI has relationships with other parties which may include service providers, accountants, lawyers and data providers whose compensation is solely for the services for which they are engaged and may from time to time refer clients to ARI.

### ***Economic Benefits Received***

As discussed more fully under Item 12, ARI has entered into "soft dollar" arrangements whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist ARI in our investment decision-making process. The receipt of such services are deemed to be the receipt of an economic benefit by ARI, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a Client's interest in receiving most favorable execution. Please refer to Item 12 for detailed information regarding how ARI address the conflicts of interest pertaining to soft dollar arrangements.

## Item 15 Custody

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Pursuant to Rule 206(4)-2 of the Advisers Act, ARI is deemed to have custody of Client funds for two reasons. The first is because we have the authority and ability to debit our fees directly from certain Clients' accounts. To mitigate any potential conflicts of interests due to this arrangement, all our Client account assets are maintained with an independent non-affiliated qualified custodian.

Clients should receive at least quarterly statements from the qualified custodian that holds and maintains your investment assets. ARI urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities and are not intended to replace the custodial account statements as records for official or tax reporting purposes. Your custodian is required to maintain important tax information, reports such information to the IRS and should be consulted to obtain account tax records. Please consult with your tax advisor to interpret and use the information contained in any report received from either your custodian or us; we do not provide tax advice. If you have not received a statement at least quarterly from your custodian you are strongly encouraged to contact us.

The second reason is due to the fact that our Private Funds are affiliates and we serve as the General Partner or Managing Member, in addition to the investment adviser of each Private Fund.

As outlined in Rule 206(4)-2 of the Investment Advisers Act of 1940, investment advisers that are deemed to have custody of client assets (other than through the ability to debit fees) are generally required to have an annual independent verification of those assets. The verification must be in the form of a surprise examination performed by an independent non-affiliated certified public accountant. However, an exception applies in the case of private investment funds, so long as the private fund is receiving annual audits of their financial statements performed by an independent public accountant, which is registered with and subject to regular inspection by the Public Company Accounting Oversight Board ("PCAOB"). In addition, the audited financial statements must be prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and distributed to all investors within 120 days of the end of the private fund's fiscal year. The private funds also must receive an audit upon full liquidation and the audited financial statements must be distributed to all of a fund's investors promptly after the completion of such audit.

Currently, ARI does not have annual surprise audits performed since each of the Private Funds are receiving annual audits of their financial statements by a public accounting firm that is registered with and subject to regular inspection by PCAOB. We also assist the Private Funds with the distribution of the audited financial statements to all its investors and ensure such distributions are made within 120 days of each Private Fund's fiscal year end. Should the Private Funds liquidate their pooled assets, we will ensure the financial statements of each Private Fund are audited at that time and distributed to investors.

## Item 16 Investment Discretion

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### ***Discretionary Authority; Limitations***



ARI performs its investment supervisory services on a discretionary basis, unless otherwise agreed upon at the inception of the Client relationship and memorialized in the written agreement between ARI and the Client. In exercising its discretionary authority, we will normally determine (without first obtaining Client's permission for each transaction): 1) the type of securities to be bought and sold, 2) the dollar amounts of the securities to be bought and sold, 3) the broker-dealers through which transactions will be executed, 4) whether a Client's transaction should be combined with those of other Clients and traded as a "block", and 5) the commission rates and/or transactions costs paid to effect the transactions. However, our authority may be subject to conditions imposed by a Client, examples of which include: 1) where the Client restricts or prohibits transactions in securities of a specific company or industry, and 2) where a Client directs that transactions be effected through specific broker-dealers ("Directed Brokerage").

### ***Limited Power of Attorney***

ARI is authorized to exercise full discretionary authority via a limited power of attorney contained in written agreements, executed between us and our Clients. We are designated as a Client's attorney-in-fact with discretionary authority to effect investment transactions in a Client's account which authorizes us to give instructions to third parties in furtherance of such authority.

ARI requests that investment guidelines and restrictions be provided to it by its clients in writing.

## **Item 17      Voting Client Securities**

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ARI has engaged and utilizes Institutional Shareholder Services ("ISS") to provide proxy voting services for clients for whom ARI exercises proxy voting authority. ARI has adopted standard proxy voting guidelines, which are generally applied by ISS to all ARI proxy votes, absent instruction from ARI to the contrary. ARI generally votes in accordance with its proxy voting guidelines; however, ARI may opt to override the guidelines if it is decided to be the best interest of its clients.

Complete proxy voting policies and procedures, including complete guidelines are available upon request. Additionally, clients may contact ARI at (312) 565-1414 to obtain information on how securities were voted.

### **Class Action Litigations and Settlements**

From time to time securities held in a client's portfolio may be the subject of class action litigation. The decision regarding whether to file a proof of claim in a class action settlement is a question involving legal judgment. ARI's Investment Advisory Contract does not provide sufficient authority to file a proof of claim form. If a client requests additional assistance, ARI will provide any transaction information pertaining to the client's account that may be helpful and/or needed in order for the client or their custodian to file a proof of claim in a class action.

Item 18 Financial Information

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ARI does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. We do not have any financial commitments that impair our ability to meet contractual and fiduciary obligations to Clients, and have not been the subject of a bankruptcy proceeding. Piper Jaffray Companies files quarterly and annual financial statements with the SEC. These are available through the SEC and on Piper Jaffray's web site at the following location: [http://www.piperjaffray.com/2col\\_largeright.aspx?id=161](http://www.piperjaffray.com/2col_largeright.aspx?id=161)

## CUSTOMER PRIVACY NOTICE

Advisory Research, Inc. is committed to maintaining the confidentiality, integrity and security of personal information entrusted to us by current and former clients. We understand that your privacy is important to you and will continue to treat your personal information as confidential. This Privacy Notice provides general information on how we utilize and protect your personal information.

We possess personal information about you from the following sources:

- Information we receive from you on applications or other forms, such as your name, address, Social Security number and information about your financial status, such as your income and investment objectives;
- Information about your transactions with us, with our affiliates, or with others; and
- Information you provide us through your account inquiries by mail, telephone or over the internet.

We restrict access to your personal information to those personnel within the firm who need to know that information in order to process your transactions or to provide products and services to you. Personnel who have access to your personal information are required to keep all information strictly confidential.

We do not disclose any personal information about our clients or former clients to third parties unless one of the following limited exceptions applies. Names and addresses are never sold to third parties for any outside use.

- Upon your written, electronic or telephonic request, we will disclose personal information to third parties such as accountants, lawyers, brokers etc. as directed by you.
- We may disclose your personal information to only those affiliates and nonaffiliated third parties to help us service and maintain accounts and process transactions and perform other services on behalf of the account, such as bank trustees or broker-dealers acting as custodians for your account.
- We may disclose or report personal information as required by law, to our legal and accounting professionals, and to our software vendors who provide technical support necessary to safeguard the integrity of our systems and to assist us in providing better services to you.
- In connection with a proposed or actual sale, merger, transfer or exchange of all or a portion of our business, we may disclose your information to the potential acquirer and its legal, accounting and other professionals, subject to a contractual obligation to maintain strict confidentiality by these professionals.
- When disclosing information to third parties, we disclose only the minimum amount of information required to satisfy the specific service we have requested.

We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your non-public personal information. We only disclose information to parties who provide necessary services to us and who are contractually obligated to maintain the confidentiality of your account information. We take seriously the obligation to protect against unauthorized access to or use of your personal information in connection with its disposal.

This privacy policy is provided by Advisory Research, Inc., a registered investment advisor, in accordance with regulations of the Securities and Exchange Commission. Please contact Advisory Research, Inc., if you have any questions regarding our privacy notice.

**Advisory Research, Inc. ERISA 408(b)(2) DISCLOSURE**

This disclosure is provided in connection with the investment management services provided by Advisory Research, Inc., (“ARI”) to the Plan and are designed to comply with the disclosure requirements under Section 408(b)(2) of ERISA. If you are not the “responsible plan fiduciary” authorized to engage service providers for the Plan, please forward these materials to the appropriate Plan fiduciary. Please note that this document is not itself an agreement for services. Further, this document is neither intended to replace or amend any agreement or other contract ARI or any affiliate may have with the Plan, nor is it any guarantee with respect to the pricing of any of our services. In the event of any discrepancy between the information contained in these materials and the terms that govern our contractual relationships with the Plan, the latter will govern.

**Description of Services that ARI Provides to the Plan**

ARI provides investment management services to your Plan. A complete description of these services can be found in the investment management or other agreement (“Agreement”) between ARI and the Plan or a third party on behalf of the Plan. All services that ARI expects to provide are listed in the Agreement, and may include ancillary services at no additional cost, such as research, market updates, educational events, conversations with professionals and other market color or analytics. This disclosure relates solely to the services provided in connection with the Agreement. For further information about ARI’s services, please refer to ARI’s Form ADV, Part 2A.

**ARI’s Fiduciary and Registered Investment Adviser Status to the Plan**

ARI provides its services to the Plan as a fiduciary as defined in Section 3(21) of ERISA and as an investment manager as defined in Section 3(38) of ERISA. ARI also provides services to the Plan as an investment adviser registered under the Investment Advisers Act of 1940.

**Direct Compensation**

ARI receives direct compensation from the Plan in connection with the investment management services it provides to the Plan. The amount of direct compensation that is paid to ARI is stated in the Agreement and/or accompanying Fee Schedule.

**Manner of Receipt of Compensation**

The compensation due to ARI is billed by ARI with the frequency set forth in the Agreement and payment is remitted to ARI by the Plan or the Plan’s sponsor. In general, if a Client opts to pay its management fees in advance and the Agreement is terminated prior to the end of the billing period, the management fees will be pro-rated for the portion of the billing period in which the Agreement was in effect and the Plan will be issued a refund for any excess fees paid to ARI.

**Indirect Compensation; Conflicts of Interest**

When acting as an ERISA fiduciary, ARI and its affiliates are generally not permitted to receive indirect compensation in respect of any such fiduciary services. Under certain circumstances, ARI may receive proprietary research from broker-dealers with which or through which ARI executes or effects trades for client accounts. It is ARI's belief that in many cases, the research and other information that is provided to ARI is offered without charge and without any commitment on the part of ARI to engage in any specific business or transaction. For example, with respect to ARI's fixed income transactions, ARI does not have any soft dollar arrangements with broker-dealers, nor does ARI direct client transactions to particular broker-dealers in return for soft dollars. ARI believes that in executing such transactions it is guided solely by its fiduciary responsibilities to its clients, including its duty to obtain the most favorable pricing and execution under the prevailing circumstances, and considering the factors further detailed in Item 12 of ARI's Form ADV, Part 2A. In other cases (such as equity transactions traded on an agency basis), ARI may pay for research through commissions or other equivalents. ARI believes in these cases that the research it receives is not based on any particular account or transaction, including that of the Plan, and that, given the inherent nature of the research obtained (which, for example, may include "proprietary" research) ARI is unable to provide any meaningful quantitative information attributable to the Plan's account on a prospective basis. An overview of ARI's soft dollar policy is provided in Item 12 of ARI's Form ADV, Part 2A. ARI has adopted policies and procedures that seek to manage potential conflicts of interest, or the appearance of such conflicts, that may arise from the exchange of gifts and participation in meals and entertainment by ARI employees with third parties (e.g., clients, brokers, vendors, issuers and consultants). ARI generally prohibits the giving and receiving of gifts of more than nominal value by our employees. Our personnel may occasionally host or accept meals and/or entertainment associated with ARI's business, subject to applicable law and limitations set forth in our Gifts and Entertainment policies. Such limitations, among other things, require meals and entertainment to be modest in scope and cost and infrequent in nature. Our policies also strictly prohibit the offer or acceptance of bribes. ARI believes that anything of value received by ARI employees from third parties would be received in the context of a general business relationship and should not be viewed as attributable or allocable to services provided to any individual plan. Based on prior history and our policies and procedures, ARI believes that the aggregate annual value of nonmonetary gifts allocable to the Plan would not be expected to be reportable with respect to the Plan for purposes of the Department of Labor's Form 5500 Schedule C reporting rules.

**Compensation Paid Among ARI and Its Affiliates and/or Subcontractors**

The Plan does not pay any transaction based compensation to ARI, its affiliates and/or subcontractors in connection with the investment management services ARI provides to the Plan. The Plan also is not charged any such compensation directly against the assets of the Plan held in the separate account in connection with the investment management services ARI provides to the Plan.

**Compensation for Termination of the Agreement**

Provisions relating to termination of the Agreement are set forth in the Agreement.

**Compensation for Recordkeeping Services**

ARI does not receive any compensation for providing recordkeeping services related to the maintenance of Plan accounts, records or statements.

**Disclosures Applicable to Participant Directed Defined Contribution Plans Only**

If the Plan is a 401(k) plan (or other individual account or defined contribution plan), ARI expects that the compensation it receives would be included in disclosures of the overall fees and expenses for the designated investment alternative for which ARI provides investment management services (as set forth in the Agreement). As ARI does not manage or control all aspects of the Plan's designated investment alternative, there may be fees and expenses from other service providers to be included in any reporting of the overall fees and expenses of the designated investment alternative. For example, this could include trust fees or other fees and expenses, if any. Please consult such other service providers for disclosure of that information.

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We believe the foregoing reflects the information required to be provided under Section 408(b)(2) of ERISA in connection with the services ARI provides to the Plan. If you have any questions or require further information, including copies of any of the documents referenced herein, please do not hesitate to contact your ARI representative.