

Johnston Asset Management LLC

Part 2A of Form ADV

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This brochure provides information about the qualifications and business practices of Johnston Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at (203) 324-4722. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

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

Johnston Asset Management LLC is registered with the SEC as an investment adviser. Registration does not imply a certain level of skill or training.

Item 2: Material Changes

On July 1, 2016, Bruce Albert joined Johnston Asset Management LLC as General Counsel and Chief Compliance Officer.

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Item 4: Advisory Business

Johnston Asset Management LLC (“Johnston” or the “Firm”) is an independent, growth equity boutique investment management firm registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). As of December 31, 2016, we managed assets of \$4,489,996,182 for clients all on a discretionary basis.

Since our founding in 1985, Johnston has provided investment management services to clients on a discretionary basis. We provide investment advisory services to private funds and separately managed accounts for both taxable and tax exempt clients. Clients include pension plans, endowments, foundations, state governmental entities, Taft-Hartley plans, families, and individuals, among other types.

Johnston is 100% employee owned by 8 shareholders all of whom are current employees. The Firm has a two-level holding company structure; Cassandra Hardman is the principal owner of Johnston through her ownership of a majority of the Firm’s top level holding company, Johnston Asset S Holding Inc.

Types of Advisory Services

Johnston provides investment advisory services on a discretionary basis in accordance with the methods described in the *Methods of Analysis, Investment Strategies and Risk of Loss* section of this brochure.

Johnston provides discretionary investment advisory services to separately managed accounts and private funds as described in the *Types of Clients* section of this brochure.

In addition, the Firm is the general partner of three private funds (Johnston International Equity Fund I, LP, Johnston International Equity Fund II, LP, and the Johnston Capital Partners Fund I, LP), and the investment manager to two group trusts (Johnston International Equity Group Trust I, and the Johnston Global Equity Fund) (collectively, the “Private Funds”). The Firm also is general partner to two internal private funds that are not currently offered to external clients (the “Proprietary Funds”).

Investment Philosophy & Strategies

The Firm follows the same investment philosophy and process for all strategies. Johnston believes that shares of high quality, market leading companies that can grow their earnings faster than the average company should outperform the broader market over time. Furthermore, when those shares can be purchased at an attractive price, they offer the greatest potential for capital appreciation and downside protection.

Johnston offers discretionary investment advisory services to external clients across four different investment strategies: (1) International Equity; (2) Global Equity; (3) Large Cap Equity; and (4) Growth Equity.

International Equity

Our International Equity strategy invests in equity securities of issuers located outside the United States, primarily mid- to large-capitalization companies. Such companies typically have market capitalizations in excess of \$1 billion. This strategy invests in listed on recognized securities exchanges in the United States and outside of the United States, and in American Depositary Receipts (“ADRs”) of foreign issuers traded on securities exchanges in the United States.

The International Equity strategy is offered in private funds for accredited investors (Johnston International Equity Fund I, LP) or qualified purchasers (Johnston International Equity Fund II, LP), and in our international equity group trust for qualified participants (Johnston International Equity Group Trust I). Each pooled investment vehicle and separately managed account primarily invests in securities of issuers located in countries with developed markets (other than the United States) but each may invest up to 20% of its net assets in securities of issuers located in emerging markets. The International Equity strategy also is available to separately managed accounts.

For clients who require it, we offer this product in separately managed accounts that invest only in ADRs or equities of non-United States companies traded on United States exchanges.

The private funds and the International Equity Group Trust may purchase and sell forward foreign currency exchange contracts in non-United States currencies in connection with their investments in order to seek to hedge their exposure to such currencies.

Global Equity

Our Global Equity strategy invests in the securities of mid- to large-capitalization companies located outside the United States as well as domestically. The strategy invests in equities listed on recognized securities exchanges. While the strategy focuses on securities of issuers located in countries with developed markets, up to 15% of the assets invested in the Global Equity strategy may be invested in emerging markets.

An investor can participate in our Global Equity strategy through a separately managed account or, if qualified, as a participant of our global group trust (Johnston Global Equity Fund). The global group trust may purchase and sell forward foreign currency exchange contracts in non-United States currencies in connection with its investments in order to seek to hedge its exposure to such currencies.

Large Cap Equity

Our Large Cap Equity strategy invests in equity securities of mid- to large-capitalization companies located primarily in the United States, but also allocates a portion of the portfolio to companies located outside the United States that have ADRs that trade on securities exchanges in the United States.

This strategy is offered to separately managed accounts only.

Growth Equity

Our Growth Equity is a more concentrated portfolio than our Large Cap strategy that invests primarily in equity securities of United States listed mid- to large-capitalization companies. This strategy also invests in ADRs of foreign issuers traded on securities exchanges in the United States.

This strategy is offered to separately managed accounts or in a private fund (Johnston Capital Partners Fund I, LP) for accredited investors.

While we prefer to invest client assets in separately managed accounts similarly within each strategy, each client's account is managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account.

At this time, we are no longer accepting new wrap business. We participate in one legacy wrap fee program. Clients in that program are managed similar to other clients, but trades for those clients are executed with the broker-dealer related to the Sponsor of that wrap program. The Firm has a sub-advisory agreement with the Sponsor to provide discretionary investment advisory services to the Sponsor's clients. The Firm is paid by the Sponsor and receives a portion of the wrap fee collected by the Sponsor.

Item 5: Fees and Compensation

Separately Managed Account Fees

For most of our separately managed accounts, Johnston charges fees quarterly in arrears based on the account value at the end of the prior quarter. For some separately managed accounts, Johnston charges fees quarterly in arrears based on a three month average account value. Most clients authorize Johnston to deduct fees automatically from their custodial accounts, but clients may request that Johnston send quarterly invoices to be paid by check or bank wire. Johnston reserves the right to waive or negotiate fees for separately managed accounts or reduce its minimum account size requirement at its discretion.

If the client terminates the investment management agreement with Johnston in the middle of a billing period, we will invoice the client pro-rata based on termination date. If a client contributes or withdraws more than 10% of the account value during a quarter, Johnston will prorate the fees on the contribution or withdrawal. Contributions of less than 10% of client assets are not prorated and will be reflected in Johnston's fee calculation for the entire quarter. If a withdrawal is less than 10%, the value of the account is based on the ending value after the withdrawal.

Johnston's standard fee schedules for separately managed accounts are as follows:

International Equity

Market value of assets	Annual rate
First \$10 Million	0.85%
Next \$15 Million	0.75%
Next \$25 Million	0.65%
Above \$50 million	0.60%

Global Equity

Market value of assets	Annual rate
First \$10 Million	0.85%
Next \$15 Million	0.75%
Next \$25 Million	0.65%
Above \$50 million	0.60%

Large Cap Equity, Institutional Accounts

Market value of assets	Annual rate
First \$10 Million	0.75%
Next \$15 Million	0.65%
Above \$25 Million	0.50%

Large Cap Equity, High Net Worth Accounts

- 1% per annum

Growth Equity, Institutional Accounts

Market value of assets	Annual rate
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First \$10 Million	0.80%
Next \$15 Million	0.75%
Above \$25 Million	0.55%

Growth Equity, High Net Worth Accounts

- 1% per annum

Private Fund and Group Trust Fees

Johnston International Equity Fund I, LP, Johnston International Equity Fund II, LP, Johnston International Equity Group Trust I, and the Johnston Global Equity Fund bill in arrears based on the average of the starting and ending market values on a quarterly basis. Johnston Capital Partners Fund I, LP bills in arrears based on the ending quarterly market value. Johnston has waived fees for its employees and their immediate family members invested in our private funds. The Proprietary Funds are not offered to external clients and bear no fees.

Johnston's standard fee schedules for the Private Funds are as follows:

International Equity, Johnston International Equity Fund I, LP

- 1% per annum

International Equity, Johnston International Equity Fund II, LP

Market value of assets	Annual rate
First \$10 Million	1.00%
Next \$15 Million	0.90%
Next \$25 Million	0.80%
Above \$50 million	0.70%

International Equity, Johnston International Equity Group Trust I

Market value of assets	Annual rate
First \$10 Million	0.90%
Next \$15 Million	0.80%
Next \$25 Million	0.70%
Above \$50 million	0.65%

Global Equity, Johnston Global Equity Fund

Market value of assets	Annual rate
First \$10 Million	0.90%

Next \$15 Million	0.80%
Next \$25 Million	0.70%
Above \$50 million	0.65%

Growth Equity, Johnston Capital Partners I, LP

- 1.25 % per annum

Brokerage and Other Costs

All portfolios incur brokerage and other transaction costs. Please refer to the *Brokerage Practices* section of this brochure for more information. For separately managed accounts, clients engage and pay for the services of the custodian directly. For its Private Funds and Proprietary Funds, Johnston absorbs the custodial costs and trust fees.

Neither Johnston nor any of its supervised persons accepts compensation for the sale of securities.

Johnston International Equity Fund I, LP

As the general partner of the fund, Johnston bears ongoing expenses of the fund's offering and operation, such as administration, accounting, auditing, legal, blue sky and regulatory filing fees. The fund bears its own portfolio trading expenses, such as brokerage commissions, and taxes imposed on the fund or its income.

Johnston International Equity Fund II, LP

As the general partner of the fund, Johnston bears ongoing expenses of the fund's offering and operation, such as administration, accounting, auditing, legal, blue sky and regulatory filing fees. The fund bears its own portfolio trading expenses, such as brokerage commissions, and taxes imposed on the fund or its income.

Johnston International Equity Group Trust I

The fund bears all reasonable expenses incurred by Johnston and the fund's trustee in connection with the performance of their duties under the fund's trust agreement (including fees for legal and auditing services rendered to the fund), the expense of brokerage fees and commissions paid in connection with the purchase and sale of the fund's assets, extraordinary expenses (including litigation expenses), and all taxes levied or assessed in respect of the fund or its income.

Johnston Global Equity Fund

The fund bears all reasonable expenses incurred by Johnston and the fund's trustee in connection with the performance of their duties under the fund's trust agreement (including fees for legal and auditing services rendered to the fund), the expense of brokerage fees and commissions paid in connection with the purchase and sale of the fund's assets, extraordinary expenses (including litigation expenses), and all taxes levied or assessed in respect of the fund or its income.

Johnston Capital Partners Fund I, LP

As the general partner of the fund, Johnston bears all expenses related to the administration of the fund (the "Administrative Expenses"), except for compensation to professionals for performing accounting services for the fund. The fund bears its own taxes and such other expenses that Johnston as the general partner reasonably determines should not properly be considered Administrative Expenses of the fund.

Item 6: Performance Based Fees and Side by Side Management

Johnston does not charge any performance-based fees (i.e., fees based on a share of capital gains on, or capital appreciation of, the assets of a client).

Item 7: Types of Clients

As described in *Types of Advisory Services* section of this Brochure, Johnston provides discretionary advisory services to a variety of clients, including institutions, such as pension and profit sharing plans, foundations and public accounts, and high net worth individuals and their associated trusts, estates, and other legal entities.

Account Minimums

Separately managed account clients have a stated minimum account size which varies by strategy, ranging from \$2,000,000 to \$10,000,000. Each of our private funds that are limited partnerships have a minimum subscription amount: Johnston International Equity Fund I, LP (\$250,000); Johnston International Equity Fund II, LP (\$1,000,000); and Johnston Capital Partners Fund I, LP (\$200,000). The minimum initial investment amount for each group trust is \$5,000,000. Johnston has the discretion to waive or reduce its minimum account requirements for both its separately managed accounts and its Private Funds.

Item 8: Methods of Analysis, Investment Strategy and Risk of Loss

Overview

Johnston believes that stock selection is the key to successful investment performance. The Firm believes that shares of high quality, market leading companies, that can sustainably grow their earnings faster than the average company, should outperform the broader market over time. Furthermore, the Firm believes that when such stocks are purchased at an attractive valuation relative to their future earnings growth, they have the greatest potential for capital appreciation while also providing downside protection in difficult market environments. Thus, Johnston seeks to buy great, growing businesses when they are "on sale".

The valuation process is focused on medium-term future earnings streams, rather than other metrics such as historical growth and book value. One important consequence of this is that portfolios tend to include holdings with a very attractive price/earnings to growth ratio relative to the market. This provides the dual-price growth drivers of earnings growth and multiple expansion.

A key tenet of the Firm's philosophy is that markets behave efficiently over the longer term, but may be inefficient over shorter time frames. These periods of inefficient pricing have historically provided the opportunity to buy market leading, high-quality, growth companies at bargain prices, and conversely, to sell them when the market is paying a very high price relative to expected earnings growth.

Investment Criteria

To qualify for investment, a company must satisfy the Firm's stringent requirements regarding: (1) secular growth, (2) quality, (3) leadership and (4) value. These high hurdles result in the Firm focusing on a relatively small set of companies. This focus allows the Firm to harness its resources in order to perform in-depth research on current holdings and new ideas. Johnston believes this focus provides the Firm with a significant competitive advantage. Maintaining focus on current holdings and closely monitoring position size is particularly relevant in the context of Johnston's long-term, low-turnover approach, where entry and exit points are important sources of value.

Thus, companies that do not satisfy all of the following criteria as determined by the Firm are excluded from investment:

- Projected double digit annual EPS GROWTH over the next 3-5 years.
- Represent a compelling VALUE by sitting in the top quartile of Johnston's proprietary ranking model, driven by valuation adjusted for growth.
- QUALITY - including strong balance sheet, strong returns above their cost of capital, an understandable business plan, significant investment in growth and good management.

- Market LEADERSHIP – a leader in a market or segment within an industry in which they operate, either globally or locally.

Stocks must meet all these criteria, not just one, two or three, in order to qualify for additional research, let alone inclusion in Johnston's portfolio.

Methods of Analysis

Even the best companies in the world with proven management teams, business models and strong balance sheets can occasionally sell at bargain prices. There may be political, economic, market, industry or company specific news that causes a market-leading growth company to sell at an unreasonably low valuation. Valuation distortions also occur in under-followed companies, or ones that have gone through a significant transformation causing valuations to be misaligned with future growth prospects. In the short term, stocks can sell at prices well below where they have traded historically (driven by fear) and, conversely, well above (driven by greed). Johnston's investment process is designed to take advantage of these price movements, when stocks are oversold/undervalued (entry point) and overbought/overvalued (exit).

Stocks that meet the Firm's investment hurdles consist of a small, yet highly fertile opportunity set. By focusing on a narrow universe of companies that it believes has a propensity to outperform the broader market, the Firm utilizes its intellectual resources efficiently. Johnston believes that this focus, combined with the experience of the investment team, ensures that those companies that qualify for inclusion in the portfolio are deeply researched and thoroughly understood.

The Firm's investment approach is pragmatic and highly selective. It is based upon an ongoing search for high quality growth companies coupled with a rigorous set of requirements for creating a differentiated portfolio. This results in uncovering attractive opportunities in all kinds of environments and in areas where the herd is often not focused.

The ability to narrow the research effort exclusively on a small group of fertile new ideas and portfolio holdings provides the Firm with an important competitive advantage. Johnston's screen and ranking system is a critical tool in quickly and efficiently identifying a limited number of new ideas with the relevant characteristics that are worthy of research. Johnston runs its investment screen on a monthly basis in order to generate new ideas. While the screen has been refined over time, its essence has been used successfully and consistently applied by Johnston for more than 20 years.

Johnston's screen narrows the large universe of companies down to a group of securities that meet the Firm's stringent investment criteria. In particular, Johnston screens for securities with at least 10% per annum earnings per share growth over the next three to five years and market capitalization greater than US \$1 billion with adequate liquidity. Johnston then ranks this smaller group of stocks by value adjusted for growth based on the Firm's proprietary ranking

factor. The ranking factor also takes into account country risk, dividends and other factors associated with the quality of a company's business.

Stocks outside the top quartile of the value ranking are excluded. The top quartile stocks are then manually reviewed by the investment team for new ideas. This process produces a small number of new ideas (typically 8-15 per month) considered worthy of research. Very few of these ultimately reach the portfolio. Consistent with Johnston's objective of efficient focus and researching only those companies that meet all of Johnston's research hurdles (growth, quality, leadership, value), as soon as a "fatal flaw" is identified the stock is eliminated from further consideration.

Risk of Loss

All securities investments risk the loss of capital. The material risks that relate to Johnston's investment strategies include risks associated with diversification, foreign securities, currency, forward foreign currency exchange contracts, the absence of regulatory oversight, and limited liquidity. The following paragraphs describe some material risks associated with Johnston's strategies, but this discussion is by no means comprehensive, and does not address all of the potential risks.

Diversification: Since Johnston's portfolios are likely to be relatively concentrated, their value may fluctuate more significantly than would be the case if the portfolios maintained a wide diversification among companies, industries and types of securities.

Foreign Securities: Foreign securities investment presents special considerations not typically associated with investments in domestic securities. Foreign taxes may reduce income. Currency exchange rates and regulations may cause fluctuations in the value of foreign securities. Income from foreign issuers may be subject to non-US withholding taxes. Portfolios may also be subject to taxes on trading profits or on transfer of securities in some countries. The costs of buying and selling foreign securities, including brokerage, tax and custody costs are generally higher than those for domestic transactions. Foreign securities are subject to different regulatory environments than in the United States, and compared to the United States, there may be a lack of uniform accounting, auditing and financial reporting standards, less volume and liquidity and more volatility, less public information and less regulation of foreign issuers. Countries have been known to expropriate or nationalize assets and foreign investments may be subject to political, financial or social instability or adverse diplomatic developments. There may be difficulties in obtaining service of process on foreign issuers and difficulties in enforcing judgments with respect to claims under the United States securities laws against such issuers. Favorable or unfavorable differences between United States and foreign economies could affect foreign securities values. These risks may be greater when the investments are made in emerging market securities. The United States government has, in the past, discouraged certain foreign investments by

United States investors through taxation or other restrictions and it is possible that such restrictions could be imposed again.

Currency: Portfolios may invest in securities or other instruments denominated in non-US currencies. Such investments involve various currency risks, including unfavorable currency exchange rate developments and political or governmental intervention in currency trading or valuation. These risks are higher in emerging markets. Portfolios may, but are not required to, hedge currency risk in the portfolio and there can be no assurance that if the portfolio does hedge, that such hedging will be effective.

Forward Foreign Currency Exchange Contracts: Forward foreign currency exchange contracts are considered derivative investments, because their value and performance depend, at least in part, on the value and performance of an underlying asset. To the extent that a fund enters into these contracts, its success will depend on the manager's ability to predict market movements, and their use may have the opposite effect of that intended. Forward contracts are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. Risks include potential loss due to the imposition of controls by a government on the exchange of foreign currencies, delivery failure or default by the other party.

Additional risks and considerations are set forth in the offering documents for the Private Funds.

Item 9: Disciplinary Information

Neither Johnston nor any of its employees has been involved in any legal or disciplinary event that is material to a client's or prospective client's evaluation of Johnston's advisory business or the integrity of its management.

Item 10: Other Financial Industry Activities and Affiliations

Other Financial Industry Activities

Neither Johnston, nor any of Johnston's management persons are registered, or have applied to register, as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Affiliations

As described in the *Types of Advisory Services* section of this brochure, Johnston serves as general partner of three private funds (Johnston International Equity Fund I, LP, Johnston International Equity Fund II, LP, and the Johnston Capital Partners Fund I, LP), and the Investment Manager to two group trusts (Johnston International Equity Group Trust I, and the Johnston Global Equity Fund). In addition, the Johnston serves as general partner to two Proprietary Funds not offered to external clients.

None of Johnston's management persons have a relationship or arrangement with any person or entity that creates a material conflict of interest with its clients.

Johnston does not recommend or select other investment advisers for its clients.

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

Code of Ethics and Personal Account Trading

Johnston has adopted a written *Code of Ethics* (the "Code") pursuant to Rule 204A-1 of the Advisers Act. Among other things, the Code requires Johnston and its employees to act in its clients' best interests, abide by all applicable regulations, avoid even the appearance of impropriety and pre-clear and report on personal securities transactions. Johnston's restrictions on personal securities trading apply to trading in accounts owned by employees, as well as employees' family members living in the same household and controlled by the employee ("Covered Accounts").

The Code also requires Johnston employees to comply with ethical restraints relating to clients and their accounts, including restrictions on giving gifts or political contributions to, and receiving gifts from, clients in violation of the Firm's general standards of conduct, as well as pre-clearance requirements relating to private investments, outside interests and outside business activities.

A copy of Johnston's Code is available to any client or prospective client upon request.

Johnston and its personnel may effect limited transactions in Covered Accounts in the same or different securities than those purchased or sold for the accounts of Johnston's clients. This presents a potential conflict of interest between Johnston and its clients. Johnston employees could take advantage of investment opportunities that are appropriate for the Firm's clients prior to taking the opportunity for its clients. Johnston has implemented policies and procedures under its Code to avoid these conflicts in the management of its clients' accounts.

No transaction in a security can be made in a Covered Account without prior approval. Approval will not be granted where it would appear that an employee's trading could disadvantage Johnston's clients. The Chief Compliance Officer monitors employee trading, relative to client trading, to ensure that employees do not engage in improper transactions.

Item 12: Brokerage Practices

Broker-Dealer Selection

Johnston chooses a broker to execute each trade order from a list of approved brokers. Taking into consideration the brokerage capabilities relevant to the transaction, the Firm attempts to select the broker that is most likely to provide best execution. Relevant capabilities can include:

- The commission rates charged by the broker in comparison to the charges of other brokers for similar transactions;
- Direct access to the broker's trading desk and the familiarity of the contact person with the adviser's business and interests;
- The extensiveness of the broker's distribution network and its ability to fulfill more difficult orders (e.g. thinly traded or limited availability securities);
- The ability of the broker to maintain confidentiality while executing trades to prevent the disclosure of an adviser's investment strategy or the details of an order in a way that will adversely affect the market price;
- The broker's technology, including access to dark pools and algorithms;
- The broker's execution abilities, including the level of accuracy in executing orders, speed of execution, and ability to obtain best net price;
- The broker's communications and administrative abilities, including efficiency of reporting, settlement efficiency, and proper correction of trade errors;
- The broker's research capabilities and ability to provide market information;
- The extent to which the broker provides the adviser with access to companies through trade shows, conferences or other contacts; and
- The financial stability of the broker.

The importance of any particular criterion will depend on the nature of the transaction, the market in which it will occur, and the number of brokers that are capable of executing the transaction.

Research and Other Soft Dollar Benefits

Johnston uses commissions to obtain investment research only under the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934. Pursuant to Section 28(e), Johnston has entered into soft dollar arrangements with third parties and broker-dealers for

eligible "brokerage" and "research" products and services (as defined under Section 28(e)) used by Johnston in connection with its investment process.

Examples of research services that can be acquired by Johnston with the commissions paid by its clients include, but may not be limited to: financial newsletters; trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution and certain proxy services.

Examples of brokerage services that can be acquired by the adviser with the commissions paid by the adviser's clients include, but may not be limited to: connectivity services between Johnston and a broker-dealer or other relevant parties such as custodians; trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post-trade matching trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirmations or trade affirmations.

When Johnston uses client brokerage commissions to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products or services. Johnston has an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its clients' interest in receiving most favorable execution. Johnston may cause its clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits. As a fiduciary, Johnston has an obligation to seek "best execution" of clients' transactions under the circumstances of the particular transaction. Notwithstanding the safe harbor provided under Section 28(e), no allocation for soft dollar payments shall be made unless best execution of the transaction is reasonably expected to be obtained.

The research obtained through soft dollar benefits is used to service all clients. Certain clients of Johnston may direct the Firm to not include the commissions generated on behalf of the transactions in their account to pay for eligible soft dollar research and brokerage services. These clients receive the benefit of the research or brokerage service which is paid for by other clients' commissions.

Brokerage for Client Referrals

Johnston does not compensate any custodian or broker-dealer for referring client accounts.

Directed Brokerage

A few clients have directed us to use a specific broker-dealer through which we must execute securities transactions for their account(s), and have negotiated their own commission rates. Where a client has directed the use of a particular broker-dealer, the client should consider the following information: (i) we may have limited or no ability to negotiate commissions for the client; (ii) we are unable to negotiate volume discounts; (iii) disparity in commission charges may exist among clients; (iv) conflicts of interest may arise from such non-brokerage referrals; (v) such brokerage referral trades are usually executed after non-brokerage referral trades and (vi) such client may not be able to obtain any of the benefits of block trades that we may enter into for clients who have not directed us to use a particular broker-dealer.

We often purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution, to negotiate more favorable commission rates and/or to allocate equitably among such clients the effects of any market fluctuation that might have otherwise occurred had such orders been placed independently. Under this procedure, the transactions are averaged as to price and allocated as to amount according to the daily purchase and sale orders actually placed for each client account.

Certain orders, however, may be traded separately from a batched order. For example, transactions that are executed through a particular broker-dealer pursuant to a client’s direction because that client’s custodian provides bundled brokerage services and may charge “trade away” fees, may not be combined or batched for execution with orders for the same securities for other managed accounts, except to the extent that such broker-dealer is the executing broker-dealer for the combined or batched order. Where the above exception is not applicable and an order is traded separately from a batched order, trades that are to be effected through a particular broker-dealer pursuant to a client direction usually are placed after batched trading activity for a particular security. Accordingly, such trades may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the batched order. The direction by a client of a particular broker-dealer to execute trades may result in higher commissions, greater spreads, or less favorable net prices than might be the case if we were empowered to negotiate commission rates or spreads freely or to select brokers or dealers based on best execution.

Trade Aggregation and Allocation

Johnston typically aggregates contemporaneous buy or sell orders for the same security in all non-directed client accounts in an effort to obtain favorable order execution and to facilitate equitable allocation. Clients participating in a bunched order receive the same average price and incur the same trading costs. If an order is partially filled, clients will have their orders allocated by a pro rata percent of the total shares. Johnston will seek to complete any unfilled client orders on the next trading day.

Certain Johnston client accounts are custodied at broker-dealers that provide bundled brokerage services and may charge “trade away” fees or are unable to trade away from their broker-dealer custodian. For those clients, we may trade after a block order. Clients that are removed from a block trade participate in a fair and equitable trade rotation. The Firm tracks the trade rotation to ensure that each client is treated appropriately over time. No single account is repeatedly executed first or last.

Trade Errors

Johnston has policies and procedures to help it assess and determine, consistent with applicable standards of care and client documentation, when Johnston is required to reimburse a client because Johnston has committed an error. Pursuant to Johnston’s policies, an error is generally compensable by Johnston to a client when it is a mistake (whether an action or inaction) in which Johnston has, in its reasonable view, deviated from the applicable standard of care in managing the client’s assets.

As a fiduciary, Johnston has the responsibility to effect orders correctly, promptly and in the best interests of its clients. In the event any error occurs in the handling of any client transactions, due to Johnston’s actions, or inaction, Johnston’s policy is to: (1) notify the client of such error, (2) ensure that the client is treated fairly when correcting such errors, and (3) correct the error as soon as practicable and in such a manner that the client will be in the same position they would have been if the error had not occurred.

It is Johnston’s policy to reimburse your account for the cost of our acts that failed to meet the applicable standard of care and result in a direct financial loss to a client, unless that would violate the client’s investment guidelines or legal restrictions. We will not be responsible for costs or for reimbursing your account for any loss resulting from any act of a third party, unless the third party is explicitly acting as our agent in providing services to you. Third parties who are not acting as our agent include, but are not limited to, your custodian, brokers, banks and intermediaries that execute securities trades or transact foreign exchange for your account, and, for wrap fee accounts, the wrap program sponsor. We will not be responsible for tax consequences or consequential damages resulting from a trade error.

Item 13: Review of Accounts

Accounts under Johnston’s management are monitored regularly by the investment team. The investment team members review weekly reports that are designed to identify accounts that are outside the expected range for returns, exposure to asset classes and exposure to industry sectors. Reviews of client accounts may also be triggered if a client changes his or her investment objectives, or if the market, political or economic environment changes materially.

Clients receive account statements directly from their chosen custodian on a monthly basis. Johnston also sends monthly or quarterly reports (at the client’s discretion). These reports

provide holdings information including costs, market value and income. Many clients also receive reports providing gain and loss, transactions, income and expense and performance information.

Item 14: Client Referrals and Other Compensation

Johnston has an agreement with a third party marketing firm that provides referrals of (i) prospective investors and clients, each of whom is an accredited investor, and (ii) certain investment consultants to the Firm and its private funds. The Firm shares a portion of its management fees from referred investors and advisory fees from referred clients with the third party marketing firm.

Item 15: Custody

Johnston's client accounts are held in custody by unaffiliated qualified custodians. However, Johnston has the authority to deduct advisory fees from its clients' accounts. The custodians send written account statements directly to our clients on at least a quarterly basis. Clients should carefully review these statements, and are urged to compare these statements to account information provided to them by Johnston.

One or more of Johnston's employees may serve as trustee on a client's account in an individual capacity. These trusts are either familial trusts or those settled by close, personal friends. The employee is not asked to serve due to his/her position at Johnston and would continue to serve should the investment management responsibilities for the trust be moved from Johnston. The Chief Compliance Officer reviews each instance in which an employee of Johnston is asked to serve as trustee and confirms that it is a close personal or familial relationship. Johnston does not deem these trusteeships to trigger Rule 206(4)-2 under the Advisers Act.

Johnston is deemed to have custody of the assets of the three private funds and the two Proprietary Funds for which Johnston acts as the general partner and investment adviser. These funds are subject to an annual audit by an independent accounting firm registered with, and subject to, regular inspection by the Public Company Accounting Oversight Board. Audited financial statements are prepared in accordance with generally accepted accounting principles. The audited financial statements are distributed to the limited partners of the private funds within 120 days after the end of each fund's fiscal year.

Item 16: Investment Discretion

Johnston has investment discretion over all clients' accounts. When starting an investment management relationship with Johnston, clients are required to execute Johnston's advisory agreement, which includes a provision granting Johnston full investment discretion for clients' assets.

Clients can place reasonable restrictions on Johnston's management of their accounts. For example, some clients have asked Johnston not to buy securities issued by companies in certain industries, or not to sell certain securities where the client has a particularly low tax basis. In certain cases, we will call the client before placing a transaction for a new security in order to comply with client restrictions.

Any limitations on discretion imposed by a client, such as socially conscious restrictions, are documented in the advisory agreement or an amendment thereto.

In order to ensure that Johnston is able to effectively exercise discretion over its clients' accounts and fulfill its fiduciary duty to those clients, Johnston will not accept transfers-in-kind of securities for accounts referred to it through a retail, or retail like, consultant. The cost incurred by Johnston to bring securities into its security master, solely for the purpose of selling those securities and replacing them with Johnston's holdings, can be considerable. Generally, this prohibition is not applied to institutional clients or direct relationship high net worth clients.

Institutional clients and those referred by consultants with an institutional client base generally employ a transition manager to efficiently sell a client's holdings prior to the account being transferred to Johnston. The transition manager will request a list of anticipated holdings and not sell those should the client currently hold them. Those securities that are identical to those held in Johnston's composite will be accepted as transfers-in-kind.

High net worth clients that have a direct relationship with a member of Johnston are generally long-standing relationships and have very specific tax and investment needs. Johnston may accept transfers-in-kind from those high net worth clients who have long-term holdings and those with low tax bases in order to ensure a tax effective and efficient sell-down of the assets over time.

Item 17: Voting Client Securities

Proxy Voting

Johnston has and will accept authority to vote proxies on behalf of its clients. In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Johnston has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Johnston votes will be treated in accordance with these policies and procedures.

Johnston considers the reputation, experience and competence of a company's management and board of directors when it evaluates a prospective investment. In general, Johnston votes in favor of routine corporate matters such as the re-approval of an auditor or a change of a legal entity's name. Johnston also generally votes in favor of compensation practices and other

measures that are in-line with industry norms, that allow companies to attract and retain key employees and directors, that reward long-term performance, and that align the interests of management and shareholders.

Johnston has engaged Glass, Lewis & Co. (“Glass Lewis”) to assist the Firm with proxy voting. We have familiarized ourselves with Glass Lewis’ procedures and research and feel that they offer the best combination of research, record keeping, procedural efficiency and customer service to help us best serve our clients. Johnston reviews the recommendations provided by Glass Lewis, and seeks to make the final voting decisions in a manner which is in the best interests of its clients. After making a decision, Johnston provides its voting instructions to Glass Lewis who will coordinate the vote of all shares through Johnston’s clients’ custodians.

Clients may obtain a copy of Johnston’s proxy voting policies and procedures, as well as specific information about how Johnston has voted proxies on their behalf in the past upon written request.

Conflicts of Interest

If a potential or actual conflict exists, Johnston will determine whether voting in accordance with the voting guidelines and factors described above is in the best interests of the clients, including clients that are subject to ERISA. If Johnston determines that a material conflict exists and that voting in accordance with the voting guidelines and factors described above is not in the best interests of the clients, Johnston will make the appropriate disclosures to clients and either request that the clients vote the proxy(s) themselves, or abstain from voting.

Item 18: Financial Information

Johnston has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

Item 19: Requirements for State Registered Advisers

Johnston is registered with the SEC and is not registered as an investment adviser with any state regulatory authority.