



## **FORM ADV PART 2A BROCHURE**

**March 31, 2017**

This brochure (this “Brochure”) provides information about the qualifications and business practices of Hotchkis and Wiley Capital Management, LLC (“H&W”). If you have any questions about the content of this Brochure, please contact us at (213) 430-1000 or at [hwclient@hwcm.com](mailto:hwclient@hwcm.com). 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 H&W also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

H&W refers to itself as a “registered investment adviser” in materials distributed to current and prospective clients. As a registered investment adviser with the SEC, H&W is subject to the rules and regulations adopted by the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration as an investment adviser is not an indication that H&W or its directors, officers, employees or representatives have attained a particular level of skill or ability.

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Item 2: Material Changes to ADV Brochure Since Last Annual Amendment (March 29, 2016)

This Item is used to provide our clients with a summary of material changes to the Brochure.

- |            |   |
|------------|---|
| Items 4, 5 | Added information regarding model portfolios and foreign exchange transactions.   |
| Item 8     | Included additional investment risks disclosures.   |
| Item 11    | Included disclosures regarding participation in credit committees and investing across an issuer's capital structure for different clients. |

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## ITEM 4: ADVISORY BUSINESS

### A. Advisory Firm

H&W is a Delaware limited liability company, the primary members of which are HWCap Holdings, a Delaware limited liability company with members who are current and former employees of H&W, and Stephens-H&W, an Arkansas limited liability company whose primary member is SF Holding Corp., which is a diversified holding company. H&W commenced operations in October 2001. H&W's predecessor was organized as an investment adviser in July 1980.

### B. Specialization

H&W has a long experience and a strong background in providing investment advisory services with respect to value investing in equity securities. In 2009, H&W commenced offering a fixed-income (high yield) product. H&W's investment focus is on equity securities, fixed-income securities, options, derivatives and other securities that may be purchased depending on the investment objective of the client.

### C. Advisory Services

H&W furnishes investment supervisory services to investment companies (each, an "**Investment Company**") registered with the SEC under the Investment Company Act of 1940, as amended (the "**Investment Company Act**"), including certain proprietary mutual funds in the U.S. (the "**Hotchkis & Wiley Funds**"), based on the investment objectives and restrictions as set forth in the prospectuses.

H&W serves as the general partner and investment adviser of a private investment limited partnership (the "Private Fund"). H&W and certain of its owners, employees, affiliated persons and friends of the firm are currently the main investors in the Private Fund.

H&W also provides investment advisory services to high net worth individual, corporate, pension, public, endowment, foundation, pooled fund and other clients with respect to assets held in the client's custodial account (each, a "**Managed Account**"). Investment advice is tailored to client specified guidelines, objectives and restrictions. Clients may send their updated investment guidelines to H&W on a periodic basis. Programmable client specific guidelines and restrictions are coded in H&W's trading system to ensure compliance.

The Hotchkis & Wiley Funds, the Private Fund and the Managed Accounts are collectively referred to as "**Client Accounts**."

H&W provides model portfolios to unaffiliated investment advisers ("Sponsors") who may utilize such model portfolios in connection with the management of their client accounts. Model portfolios may relate to the same investment strategies that are also offered to Client Accounts. As a model portfolio provider, H&W designs, monitors and updates the model portfolio but has no responsibility for implementing its recommendations or placing trades on behalf of participating accounts. H&W does not enter into a direct advisory relationship with the clients of these Sponsors and the model portfolios are not tailored to the specific needs or circumstances of the Sponsor's clients. The Sponsors are solely responsible for initiating all trading and rebalancing activity recommended by the model portfolio(s). Depending on the structure of the Sponsor's program portfolio H&W provides to it in whole or in part, may choose not to implement certain changes made to our model portfolio or may delay the timing of trading in response to changes made to our model portfolio. As a result, the investment performance of a particular Sponsor's client may differ from the investment performance of H&W's Client Accounts that have elected to follow a similar investment strategy. H&W provides the model portfolios to the Sponsors at an agreed upon, periodic basis which varies

depending upon the particular terms of the agreement between H&W and the Sponsor. Changes to the model portfolio will not be communicated to model program Sponsors until completion of aggregated trading for H&W's discretionary clients. As a result, it is possible that, depending on the particular circumstances surrounding an order, H&W's discretionary clients may receive prices that are more favorable than those received by a client of a program Sponsor or vice versa. In addition, Client Accounts following the H&W model portfolio may be positively or negatively impacted if companies included in the model portfolio(s) release important or material information prior to the time trading orders for a particular security have been completed by the Sponsor. Please refer to Item 12 for more information regarding the communication and delivery of a model portfolio to program Sponsors.

When non-US dollar denominated securities are transacted in client accounts, or non-US currency is needed to pay expenses by non-US clients, H&W will instruct the client's custodian to effect the necessary foreign exchange ("FX") transaction. This is done either through standing instructions communicated to the custodian or at the time instructions are sent to the custodian for a particular transaction. The custodian is responsible for executing FX transactions, including the timing and applicable rate, of such execution pursuant to its own internal processes. Typically, all such FX transactions are effected with the client's custodian and H&W does not seek to obtain different FX rates from other sources.

#### **D. Wrap Fee Programs**

Not applicable.

#### **E. Assets Under Management (as of December 31, 2016)**

*Discretionary:* \$29,736,000,000; *Non-Discretionary:* \$216,000,000

Assets invested by Sponsors utilizing model portfolios are not considered assets under management by H&W and are not included above.

### **ITEM 5: FEES AND COMPENSATION**

Generally, fees are based on a standard fee schedule for the type of service being provided as set forth below. Fees under those schedules are computed on the basis of a specified percentage of the market value of assets under management. Fees may vary from the standard schedules depending on the nature of services rendered, special requirements of the Client Account or other factors, such as potential size, product life-cycle and cross-over business. Fees may differ for sub-advised Client Accounts, large Client Accounts, non-discretionary or restricted-discretion Client Accounts and certain non-U.S. Client Accounts. H&W may offer blended fee schedules to clients with Client Accounts in different products. Assets under H&W's management for a client with more than one portfolio or for a group of related clients may be combined for fee calculation purposes. Fees are normally paid on a monthly or quarterly basis in arrears. Fees paid to H&W by clients may be negotiated based on the specific circumstances of the client.

H&W may from time to time enter into a side letter agreement with one or more investors in a non-U.S. fund or Private Fund managed by H&W which may, among other terms, provide for a reduced management fee. H&W may make support payments for marketing purpose to broker-dealers and/or sub-advisory clients. H&W may also agree to limit the expenses incurred by certain Hotchkis & Wiley Funds and the Private Fund for certain periods.

Holdings in a Client Account may include interests in the Private Fund and/or shares of investment companies for which a separate management fee is charged. In the event that Client Account assets are invested in the Private Fund or a Hotchkis & Wiley Fund, those assets are excluded from the applicable separate account fee schedule, so

that the client does not pay two levels of management fees on those assets. Client assets invested in investment companies not managed by H&W will, however, pay two levels of management fees – one to H&W and one to the investment managers of the funds.

For certain non-U.S. investment vehicles, where permitted by applicable law, H&W may refund to certain institutional investors a portion of its advisory fees or reimburse fund expenses.

Either party may terminate the contract upon written notice as set forth in the contract. Fees for partial periods are prorated based on the number of days in the calendar month or quarter, as applicable, during which Client Account assets were under management.

In addition to the asset-based compensation arrangements discussed above, H&W may enter into performance-based compensation arrangements with certain Client Accounts. H&W will structure any performance-based compensation arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 under the Advisers Act. While such arrangements are negotiated with each client and thus the terms vary, they typically provide for performance compensation based on a percentage of the net capital appreciation (i.e., capital appreciation less capital depreciation) of the assets held in the Client Account. The performance-based compensation is payable only if, and to the extent that, the net capital appreciation of the Client Account assets exceeds any net capital depreciation accumulated as specified in the investment management agreement. H&W's performance-based compensation may be subject to a requirement that H&W return to the Client Account all or a portion of the performance-based compensation H&W received from the account if there is a net capital depreciation in the account assets in subsequent periods.

Other investment advisers may charge higher or lower fees for comparable services.

Standard annual advisory fee schedules for Managed Accounts are as follows:

*Large Cap Diversified Value Equity:*

0.75% on the first \$15 million  
0.50% on the next \$85 million  
0.35% thereafter  
Minimum account size: \$15 million

*Large Cap Fundamental Value Equity:*

0.75% on the first \$15 million  
0.50% thereafter  
Minimum account size: \$15 million

*Mid-Cap Value Equity:*

0.90% on the first \$15 million  
0.70% thereafter  
Minimum account size: \$15 million

*Small Cap Value Equity:*

1.00% on assets managed  
Minimum account size: \$15 million

Small Cap Diversified Value Equity:

0.75% on the first \$15 million  
0.65% on the next \$35 million  
0.55% thereafter  
Minimum account size: \$15 million

Global Value Equity:

0.80% on the first \$15 million  
0.70% on the next \$35 million  
0.60% thereafter  
Minimum account size: \$15 million

Value Opportunities:

0.90% on the first \$25 million  
0.75% thereafter  
Minimum account size: \$15 million

Capital Income:

0.60% on the first \$25 million  
0.50% on the next \$75 million  
0.40% thereafter  
Minimum account size: \$25 million

High Yield:

0.50% on the first \$50 million  
0.45% on the next \$50 million  
0.40% thereafter  
Minimum account size: \$50 million

Hedged Value:

1.00% on assets managed plus  
20% performance allocation  
Minimum account size: \$25 million

Minimum account size may be waived under certain circumstances.

H&W bills Managed Account clients for management fees on a monthly or quarterly basis in arrears. Certain Managed Account clients calculate their management fees, which are then reviewed and approved by H&W. The management fee will be prorated for assets held in the account for less than a full period. For a Client Account that is charged performance-based compensation, if a client terminates its investment management agreement on a date other than the end of a period, performance-based compensation will be made on the net capital appreciation of account assets for the period from the first day of the period to the date of termination. Clients other than the Private Fund pay their fees either directly from the Client Account or from out of their own separate assets. H&W has authority to deduct advisory fees and performance-based compensation from the Private Fund but not from other Client Accounts.

The fees and compensation paid to H&W by each Hotchkis & Wiley Fund are described in the fund's prospectus. A copy of the prospectus of each Hotchkis & Wiley Fund is available through the SEC's website at [www.sec.gov/edgar/searchedgar/companysearch.html](http://www.sec.gov/edgar/searchedgar/companysearch.html).

In addition to the management fee (and performance-based compensation, as applicable), a Client Account is responsible for any fees, expenses or charges incurred by or on behalf of the account related to (i) custodial services provided for the account, (ii) costs and expenses relating to securities transactions effected for the account, including brokerage and execution charges, markups and commissions, and (iii) any other service provided for the account by any person other than H&W. For additional information regarding brokerage and execution charges, see Item 12 below.

Cash balances in Client Accounts may be invested in unaffiliated short-term investment funds (STIFS) (which may include money market funds) designated by the client or its custodian. Since current information about STIF holdings is generally not available, H&W does not attempt to assess the quality of the underlying assets of a STIF selected by a client or its custodian. H&W does not provide any advisory fee credit for client assets invested in a STIF, which means that such assets will typically bear not only their proportionate share of the expenses of the STIF, but also management fees paid to H&W.

H&W will not receive sales commissions in connection with sales of interests in any Hotchkis & Wiley Fund or any other investment company advised or sub-advised by H&W. However, certain employees of H&W, who are registered representatives of Quasar Distributors, LLC (Quasar), the mutual fund distributor of the Hotchkis & Wiley Funds, receive sales-based compensation from H&W for marketing and promoting the Hotchkis & Wiley Funds to financial intermediaries and institutional clients. Clients have the option to purchase the Hotchkis & Wiley Funds through financial intermediaries other than Quasar. See also related disclosure in Item 10.

In exchange for providing model portfolios to Sponsors, H&W receives a fee based upon the value of the Sponsor's clients' assets allocated to H&W's model portfolio.

#### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

H&W may enter into performance-based compensation arrangements with certain Client Accounts. H&W will structure any performance-based compensation arrangement subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 under the Advisers Act. Performance-based compensation may create an incentive for H&W to cause a Client Account to make investments that are riskier than it would otherwise make. In addition, since H&W's performance-based compensation is calculated on a basis which includes unrealized appreciation of the assets held by the Client Account, it may be greater than if such compensation were based solely on realized gains.

Because some but not all Client Accounts to which H&W provides investment advisory services are charged performance-based compensation, a conflict may arise where H&W has an incentive to treat some Client Accounts preferentially as compared to others because those Client Accounts pay performance-based compensation or because H&W or one of its portfolio managers or affiliates has an interest in the Client Account. Similarly, H&W charges management fees to Client Accounts that may vary. H&W has adopted procedures to allocate portfolio transactions and investment opportunities across multiple Client Accounts on a fair and equitable basis over time. All eligible Client Accounts that can participate in a transaction share the same price on a pro rata allocation basis in an attempt to mitigate any conflict of interest. Investment opportunities are allocated among similarly managed Client Accounts to maintain consistency of portfolio strategy, taking into account cash availability, investment restrictions and guidelines, and portfolio composition. See Item 12(B) for discussion of *Aggregation and Allocation of Orders*.

Since management fees and performance-based compensation paid to H&W are based on the net asset value of a Client Account, a conflict may also arise when H&W or a related person is valuing the assets held by the Client Account. Assets will generally be valued using a third-party pricing vendor, or client's custodian, in accordance with U.S. generally accepted accounting practices.



## ITEM 7: TYPES OF CLIENTS

H&W provides investment advisory services to 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, sovereign funds, foreign funds and other U.S. and international institutions. Investment advice is tailored to client specified guidelines, objectives and restrictions. Those clients charged performance-based compensation must be eligible to enter into a performance compensation arrangement under the Advisers Act. Account minimum by strategy and type of client is disclosed under Item 5 above. The account minimum may be waived by H&W in its sole discretion.

H&W may include client names in its marketing materials unless the client specifically requests confidentiality.

## ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### A. Methods of Analysis and Investment Strategies

H&W utilizes disciplined investment strategies that primarily rely on in-house fundamental security research. The goal of all H&W's investment strategies is to provide clients with portfolios that offer attractive risk adjusted returns relative to a specified benchmark. To achieve this goal, H&W evaluates investments based on an intensive due diligence process and critical analysis of each potential portfolio company's fundamentals (e.g., financial statements, profitability, cash flow, lines of business and market share). This evaluation process can encompass interviews with company management, competitors, industry experts, outside security analysts, and other sources. H&W may supplement its in-house research resources with commercially available information services and financial publications dealing with investment research. Upon completion of the evaluation phase, securities are then added to a client's portfolio to improve the overall risk-adjusted return profile of the portfolio, subject to the guidelines of each Client Account. Following an investment by H&W for and on behalf of Client Accounts, H&W will continue to monitor the progress and suitability of portfolio investments as well as market and economic outlook.

Under H&W's investment management agreements with clients, H&W is authorized to employ any investment strategy and enter into any type of investment transaction that it deems appropriate for the Client Account in accordance with each client's investment objective and subject to any investment guidelines and restrictions imposed by a client in the investment management agreement for the Client Account. Subject to such restrictions by particular clients, H&W may provide investment advice to clients on any type of investment product, including the purchase, sale, short sale, exchange or trade in publicly traded or over-the-counter stocks, bonds, options and other derivative instruments.

Equity strategies: Investments for each Client Account are identified and selected by H&W. H&W seeks to invest in stocks whose future prospects are misunderstood or not fully recognized by the market. H&W employs a fundamental value investment approach which seeks to exploit market inefficiencies created by irrational investor behavior. To identify these investment opportunities, H&W employs a disciplined, bottom-up investment process highlighted by rigorous, internally-generated fundamental research. With the exception of diversification guidelines, H&W does not employ predetermined rules for sales; rather, H&W evaluates each sell candidate based on the candidate's specific risk and return characteristics which include: (i) relative valuation; (ii) fundamental operating trends; (iii) deterioration of fundamentals; and (iv) diversification guidelines.

Fixed income strategies: In selecting fixed income securities, H&W develops an outlook for credit markets, interest rates, currency exchange rates and the economy, analyzes individual credit and call risks, and uses other security selection techniques. The proportion of the account assets committed to investment in securities with particular

characteristics (such as quality, sector, interest rate or maturity) varies based on H&W's outlook for the U.S. economy and the economies of other countries in the world, the financial markets and other factors.

Capital Income strategies: H&W invests in equity and high yield fixed income securities that generate current income and are attractively valued. The allocation between high yield and equity can vary over time depending on where H&W identifies compelling opportunities. To identify investment opportunities, H&W leverages its existing high yield/equity bottom-up, fundamental research platform. Security overlap with H&W's existing high yield and equity strategies is likely to be considerable.

Hedged Value strategy: H&W invests in long and short positions in securities consisting principally, but not solely, of publicly traded U.S. and non-U.S. equity and equity-related securities. H&W also may invest in preferred stocks, private securities, convertible securities, warrants, options (including covered and uncovered puts and calls and over-the-counter options), futures, swaps and other derivative instruments, bonds and other fixed income securities, ETFs, mutual funds and money market instruments. H&W also engages in short selling, margin trading, hedging and other investment strategies

H&W is a signatory to the United Nations-supported Principles for Responsible Investment ("PRI"). The PRI initiative is a global, collaborative network of investors established in recognition of the view that environmental, social and corporate governance ("ESG") issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors. H&W will consider ESG issues in the normal course of the research process when material and consistent with our fiduciary obligations.

***Investment in securities involves risk of loss that clients must be prepared to bear.***

## **B. Investment Strategy and Portfolio Risks**

As with any investments, the value of the Client Account investments may go down. Many factors can affect those values. The factors that are most likely to have a material effect on a Client Account as a whole are called "principal risks." The principal risks of investing in one of H&W's strategies, which could adversely affect its net asset value, yield and total return, are summarized in this section. Not all of the risks below are relevant to all strategies. Potential investors in an Investment Company or Private Fund should review such fund's prospectus or offering circular carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. Except as otherwise noted, the risks described below also generally apply to Managed Accounts. A potential client should discuss with H&W's representatives any questions that such person may have before opening an account.

- Active Management Risk: A Client Account is subject to management risk because it is an actively managed investment portfolio. H&W invests in securities that may not necessarily be included in a Client Account's benchmark. To the extent that H&W invests a Client Account's assets in securities that are not in the Client Account's applicable benchmark index, there is a greater risk that the Client Account's performance will deviate from that of the benchmark. H&W does not seek to replicate the performance of any index.
- American Depositary Receipts ("ADRs") and Global Depositary Receipts ("GDRs") Risk. ADRs are certificates that evidence ownership of shares of a foreign issuer and are alternatives to purchasing directly the underlying foreign securities in their national markets and currencies. GDRs are certificates issued by an international bank that generally are traded and denominated in the currencies of countries other than the home country of the issuer of the underlying shares. ADRs and GDRs may be subject to certain of the risks associated with direct investments in the securities of foreign companies, such as currency, political, economic and market risks, because their values depend on the performance of the non-dollar denominated underlying foreign securities.

- Call Risk. Call risk is the risk that an issuer may exercise its right to redeem a fixed income security earlier than its maturity (a call). Issuers may call outstanding securities prior to their maturity for a number of reasons (e.g., declining interest rates, changes in credit spreads and improvements in the issuer's credit quality). If an issuer calls a security that the Fund has invested in, the Fund may not recoup the full amount of its initial investment and may be forced to reinvest in lower-yielding securities, securities with greater credit risks or securities with other, less favorable features.
- Capitalization Risk. Large cap companies as a group could fall out of favor with the market, causing a Client Account to underperform investments that focus on small or mid cap companies. A Client Account may also invest in the securities of small cap and mid cap companies. Investment in small cap and mid cap companies may involve more risk than investing in larger, more established companies. Small cap and mid cap companies may have limited product lines or markets. They may be less financially secure than larger, more established companies. They may depend on a small number of key personnel. Should a product fail, or if management changes, or if there are other adverse developments, a Client Account's investment in a small cap and mid cap company may lose substantial value.
- Credit Ratings and Unrated Securities Risk. Rating agencies are private services that provide ratings of the credit quality of fixed-income securities, including convertible securities. Rating agencies may fail to make timely changes in credit ratings and an issuer's current financial condition may be better or worse than a rating indicates. A Client Account may purchase unrated securities (which are not rated by a rating agency and may be less liquid) if its portfolio manager determines that the security is of comparable quality to a rated security that the Client Account may purchase. To the extent that a Client Account invests in high yield and/or unrated securities, the Client Account's success in achieving its investment objective may depend more heavily on the portfolio managers' creditworthiness analysis than if the Client Account invested exclusively in higher-quality and rated securities.
- Credit Risk. A Client Account could lose money if the issuer or guarantor of a fixed-income security, or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations.
- Currency Risk. If a Client Account invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. As a result, a Client Account's investments in foreign currency-denominated securities may reduce the returns of the Client Account.
- Derivatives Risk. A derivative is a financial contract with a value that depends on, or is derived from, the value of an underlying asset, reference rate or index. A Client Account typically uses derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks. A Client Account's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments, such as liquidity risk, interest rate risk, market risk, credit risk and management risk.
- Emerging Market Risk. Foreign (non-U.S.) investment risk may be particularly high to the extent that a Client Account invests in emerging market securities. These securities may present market, credit, currency, liquidity, legal, political and other risks different from, or greater than, the risks of investing in developed foreign countries.

- Equity Securities Risk. Equity securities, both common and preferred stocks, have greater price volatility than fixed-income securities. The market price of equity securities owned by a Client Account may go down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally or particular industries represented by those markets.
- Eurozone Risk. A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt. As a result, financial markets in the EU have been subject to increased volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. The risk of investing in securities in the European markets may also be heightened due to the recent referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy. The impact of these actions, especially if they occur in a disorderly fashion, is not clear but could be significant and far-reaching. To the extent that a Client Account has exposure to European markets or to transactions tied
- Fixed-Income Securities Risk. Fixed-income securities, such as bonds, involve credit risk. Credit risk is the risk that the borrower will not make timely payments of principal and interest. The degree of credit risk depends on the issuer's financial condition and on the terms of the securities. Fixed-income securities are also subject to interest rate risk.
- Foreign (Non-U.S.) Investment Risk. A Client Account may invest in foreign (non-U.S.) securities and may experience more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. companies. The securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. Additionally, issuers of foreign securities are usually not subject to the same degree of regulation as U.S. issuers. To the extent that a Client Account invests a significant portion of its assets in a specific geographic region, the Client Account will generally have more exposure to regional economic risks associated with foreign investments.
- High Yield Risk. An investment in high yield securities and unrated securities of similar credit quality (commonly known as "junk bonds") may subject a Client Account to greater levels of credit and liquidity risk than portfolios that do not invest in such securities. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce a Client Account's ability to sell these securities (liquidity risk). If the issuer of a security is in default with respect to interest or principal payments, a Client Account may lose its entire investment.
- Income Risk. The fixed income portfolios are subject to income risk, which is the risk that the portfolio's income will decline during periods of falling interest rates or when the portfolio experiences defaults on debt securities it holds. The portfolio's income declines when interest rates fall because, as the portfolio's higher-yielding debt securities mature or are prepaid, the portfolio must re-invest the proceeds in debt securities that have lower, prevailing interest rates.
- Interest Rate Risk. Interest rate risk is the risk that fixed-income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed-income securities held by a

Client Account is likely to decrease. Fixed-income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations.

- Issuer Risk. The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services.
- Liquidity Risk. To the extent that a security is difficult to sell (whether because the security cannot be traded publicly or because of unusual market conditions), a Client Account may either be forced to accept a lower price for it or may have to continue to hold the security. Either outcome could adversely affect the performance of a Client Account. A Client Account's investments in illiquid securities may reduce the returns of the Client Account because it may be unable to sell the illiquid securities at an advantageous time or price. Additionally, the market for certain investments may become illiquid under adverse market or economic conditions independent of any specific adverse changes in the conditions of a particular issuer. In such cases, a Client Account, due to limitations on investments in illiquid securities and the difficulty in purchasing and selling such securities or instruments, may be unable to achieve its desired level of exposure to a certain sector. To the extent that a Client Account's principal investment strategies involve foreign (non-U.S.) securities, derivatives or securities with substantial market and/or credit risk, the Client Account will tend to have increased exposure to liquidity risk.
- Market Risk. Market risk is the risk that the market price of securities owned by a portfolio may go down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets.
- Portfolio Turnover Risk. A Client Account may engage in frequent and active trading of portfolio securities to achieve its investment objectives, particularly during periods of volatile market movements. High portfolio turnover (i.e., over 100%) involves correspondingly greater expenses to a Client Account, including dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The trading costs and tax effects associated with portfolio turnover may adversely affect a Client Account's performance.
- Security Selection Risk. H&W may misjudge the risk and/or return potential of a security, which can result in a loss.
- Short Sale Risk. A Client Account may enter into a short sale, which involves the sale of a security that is borrowed from a broker or other institution to complete the sale. A Client Account may also enter into a short derivative position through a futures contract or swap agreement. If the price of the security or derivative has increased during this time, then a Client Account will incur a loss equal to the increase in price from the time that the short sale was entered into plus any premiums and interest paid to the third party. Therefore, short sales involve the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment. Also, there is the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the Client Account. Short sales expose a Client Account to the risk that it will be required to acquire, convert or exchange securities to replace the borrowed securities (also known as "covering" the short position) at a time when the securities sold short have appreciated in value, thus resulting in a loss to a Client Account.
- Style Risk. H&W follows an investing style that favors value investments. Historically, value investments have performed best during periods of economic recovery. Therefore, the value investing style may over

time go in and out of favor. At times when the value investing style is out of favor, a Client Account may underperform other portfolios that use different investing styles.

- Cybersecurity Risks. Although H&W employs various computer security measures, there can be no guarantee that it would be successful in fending off cybersecurity attacks from viruses, malware, computer hackers or other malicious corruption of its information technology systems. Cybersecurity breaches of the systems of H&W or its service providers (including accountants, custodians, transfer agents and administrators) may cause disruptions to business operations, cause losses due to theft or other reasons, interfere with Client Accounts' net asset value calculations, impede trading, or lead to violations of applicable privacy and other laws, regulatory fines and penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. H&W cannot control the cybersecurity plans and systems put in place by its service providers and the issuers in which it invests. Any cybersecurity breach could materially and adversely affect H&W and Client Accounts.
- Additional Risks Relating to the Private Fund:
  - The Private Fund has limited operating history on which prospective clients and investors may evaluate its performance.
  - H&W may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. H&W is not obligated to hedge the Private Fund's portfolio positions.
  - H&W may use leverage by borrowing on margin, selling securities short and trading futures and derivatives, which increases volatility and risk of loss. These instruments can be difficult to value. An incorrect valuation of these instruments could result in losses.
  - The Private Fund may dissolve or expel any investor at any time, even if such actions adversely affect one or more investors.
  - The Private Fund does not intend to make distributions, and intends instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income without a cash distribution to pay the related taxes.

### C. Country Classification

H&W uses its investment judgment to determine whether a company is a U.S. or a non-U.S. company. H&W may consider a company's primary stock exchange listing; where it is registered, organized or incorporated; where its headquarters are located; what proportion of sales, profit or assets are generated in the U.S.; what index the company stock is a member of; or any other market factors that make the stock behave like a U.S. stock.

### ITEM 9: DISCIPLINARY INFORMATION

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

#### ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS

H&W is the investment adviser to the Hotchkis & Wiley Funds and receives management fees from such funds. Although its management fees are waived with respect to Managed Account assets invested in Hotchkis & Wiley Funds, so that those investors do not pay two levels of management fees to H&W on those assets, H&W nevertheless has an incentive to invest Managed Account assets in the Hotchkis & Wiley Funds, because higher asset levels in those funds lowers their expense ratios and may increase their visibility and create other marketing advantages.

H&W is not a registered broker or dealer. However, certain employees of H&W are registered representatives of Quasar Distributors, LLC, the mutual fund distributor for the Hotchkis & Wiley Funds. In such capacity, subject to applicable law, they may receive sales-based compensation from H&W for marketing and promoting the Hotchkis & Wiley Funds to financial intermediaries and institutional clients. This relationship creates a conflict of interest, in that H&W investment management employees have an incentive to recommend that H&W clients invest in the Hotchkis & Wiley Funds so that they or their colleagues receive additional compensation.

Each Hotchkis & Wiley Fund was organized with the intent that it be managed by H&W, and H&W does not intend to cause any Hotchkis & Wiley Fund to terminate its investment management relationship with H&W absent H&W's liquidation or bankruptcy. However, H&W has a fiduciary duty to act in the best interest of each Hotchkis & Wiley Fund, and investors in each fund have the right to withdraw from the fund at any time subject to any notice requirement or other withdrawal limitations described in the fund's prospectus and statement of additional information.

H&W also serves as investment adviser and general partner of the Private Fund, which is privately placed to qualified investors. This relationship creates a conflict of interest because the Private Fund pays performance-based compensation to H&W, which gives H&W an incentive to favor the Private Fund over other Client Accounts that do not pay such compensation. H&W has adopted policies and procedures reasonably designed to ensure all clients are treated fairly and equally (see Item 6 – Performance Based Fees and Side-by-Side Management).

Neither H&W nor its related persons are obligated to allocate any specific amount of time or investment opportunities to a particular Client Account, including any Hotchkis & Wiley Fund or the Private Fund. H&W and its related persons intend to devote as much time as they deem necessary for the conduct of each Client Account's operation and portfolio management, and will allocate investment opportunities in accordance with H&W's trade allocation policy described in Item 12(B).

H&W may make support payments for marketing purposes to broker-dealers. Stephens-H&W, LLC, of which SF Holding Corp. is the primary member, owns a minority interest in H&W. SF Holding Corp. invests in a wide variety of industries, including among others, oil and gas, telecommunications, publishing and media, health care, financial services, the Internet and e-commerce, technology, agriculture, manufacturing and retailing.

Stephens-H&W is affiliated with Stephens Investment Management Group, LLC, an SEC-registered investment adviser, and with Stephens Inc., an investment banking firm which is registered as a broker-dealer, an investment adviser and a municipal adviser with the SEC, through common ownership. Owners of Stephens-H&W, and their affiliated entities, are not deemed to be advisory affiliates of H&W. H&W's relationships with affiliated entities of Stephen-H&W are not material to H&W's advisory business or its clients.

United States Department of Labor Regulations prohibit a fiduciary of a plan subject to the Employee Retirement Income Security Act of 1974 (ERISA) from exercising its fiduciary authority to cause the ERISA plan to pay a service

fee to a person in whom the fiduciary has an interest that may affect the exercise of its best judgment as a fiduciary. Regardless of whether Stephens Inc. might be considered to be a person in which H&W has such an interest, H&W will not use its authority as a fiduciary of any ERISA plan to engage Stephens Inc. to provide paid services to that plan.

Hotchkis and Wiley Limited ("HW-UK"), a wholly-owned subsidiary of H&W, is a private limited company incorporated in England and Wales. HW-UK deregistered with the Financial Conduct Authority in the United Kingdom and became an appointed representative and tied agent of Arlington Group Asset Management Limited (AGAM) effective March 1, 2016. AGAM is authorized by the Financial Conduct Authority to carry out regulated activities. Directors of HW-UK are also appointed representatives of AGAM and may carry on certain regulated activities in Europe.

*Backoffice:* H&W outsources certain backoffice functions to a third-party service provider (e.g., trade communication, settlement instructions, corporate actions, portfolio accounting, pricing, cash and asset reconciliation, performance calculation and bank loan administration). H&W oversees these functions.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics**

In order to address conflicts of interest, H&W has adopted a code of ethics (the "**Code**") which is applicable to all of H&W's employees. H&W's Code generally sets the standard of ethical and professional business conduct that H&W requires of its employees, requires employees to comply with applicable federal securities laws and regulations, and sets forth provisions regarding personal securities transactions by employees. The Code is discussed at H&W's annual compliance meeting, which is attended by H&W's employees. Each employee at least annually must certify in writing that he or she has read and followed the Code and any amendments thereto.

In addition to the Code, H&W has a Code of Conduct which sets forth specific policies and procedures for its employees to follow regarding material, non-public information ("insider information") and other confidential information of clients and H&W. While H&W does not generally expect its employees to be in receipt of inside information, it requires any employee receiving inside information to refrain from trading based on the information and to discuss the information only with the Chief Operating Officer or Chief Compliance Officer to determine an appropriate course of action. Procedures are set forth to safeguard all other confidential information.

H&W will provide a copy of the Code to any client or prospective client upon request.

A potential conflict of interest may arise when H&W determines whether or not a trading error has occurred. H&W will review all relevant facts and circumstances to determine an appropriate course of action. Upon the detection and review of an error which results in a realized loss for a client, H&W will seek to have the responsible party reimburse the client for losses attributable to such error. H&W will reimburse the client for losses due to trade errors for which H&W is responsible. In determining the net impact to a client's account due to an error, the potential loss opportunity may not be included in the analysis and calculation. H&W does not view trade exceptions that were detected and corrected prior to settlement as a trade error in the client's account. H&W will notify clients of trade errors that occur in their accounts in accordance with contractual requirements.

### **B. Participation or Interest in Client Transactions**

Based on a client's specific investment objective, H&W may recommend qualified clients to invest in a Hotchkis & Wiley Fund or another investment vehicle sponsored or managed by H&W (each, an "**H&W-related fund**"). Because



of the relationship between H&W and any H&W-related fund, H&W could be considered to have recommended the investment as suitable for a client if such person should invest in the fund. H&W will inform each client of its relationship with an H&W-related fund prior to the client's investment, but does not intend to advise clients as to the appropriateness of the investment and will not receive any compensation for doing so or for selling interests in an H&W-related fund (except to the extent that H&W receives management fees from all fund investors).

H&W's performance compensation from the Private Fund receives more favorable tax treatment than that from a Managed Account, managing the Private Fund creates less administrative burden for H&W than managing Managed Accounts, and investors in the Private Fund have less transparency and liquidity than Managed Account clients.

H&W, on behalf of clients, may from time to time engage in transactions with affiliates of SF Holding Corp. All such transactions must be consistent with H&W's obligations to its clients and must be in compliance with applicable contractual and regulatory requirements.

Periodically, H&W may seek to adjust or rebalance Client Accounts by effecting cross-trades between or among Client Accounts (i.e., causing one or more Client Accounts to sell securities to one or more other Client Accounts). In effecting such cross-trades, H&W seeks to reduce the transaction costs and promote trading efficiency to its clients of such account adjustments. All such cross-trades will be consistent with the investment objectives and policies of each Client Account involved in the trades, and will be effected in compliance with Rule 206(3)-2 under the Advisers Act, Rule 17a-7 under the Investment Company Act, ERISA regulations and any other applicable law. The Client Accounts involved in such cross-trades will not pay any brokerage commissions or mark-ups in connection with the trades (to the broker-dealer or H&W), but will reimburse the applicable broker-dealer for any customary trading costs and/or transfer fees (i.e., aggregate ticket charges) that such broker-dealer incurs and that are assessed by any other broker-dealers through which such broker-dealer effects the trades. Certain types of client accounts may be excluded from cross trade opportunities because of the specific requirements under applicable regulations or client restrictions.

H&W is not obligated to acquire for any Client Account any security that H&W or its officers, employees or affiliates acquire for its or their own accounts or for any other Client Account, if in H&W's absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

Individual and institutional clients may purchase shares of Hotchkis & Wiley Funds, other mutual funds advised by H&W, and the Private Fund pending investment of assets or as part of their investment program. Such clients along with other fund shareholders bear a proportionate share of the expenses of those funds, including, to the extent permitted by law, the management fee paid to H&W. H&W purchases (and sells) shares of certain Hotchkis & Wiley Funds, generally for seed capital and occasionally to invest available operating capital. In addition, H&W employees and affiliates may invest in shares of the Hotchkis & Wiley Funds, other mutual funds advised or sub-advised by H&W, and the Private Fund.

H&W or its employees may, from time to time, invest in securities issued by companies where H&W has material business relationships, including companies that are the firm's clients, broker-dealer counterparties, third-party vendors, or financial intermediaries who distribute or place orders on behalf of their clients, or provide shareholder services related to the Hotchkis & Wiley Funds.

H&W may use client lists when soliciting new clients provided that the existing clients included on such lists have not requested confidentiality.

H&W may be restricted from purchasing for Client Accounts certain securities where the issuer (or government authority) has imposed ownership limits. Certain employees/officers of H&W may also be restricted from personal transactions in such security under certain circumstances.

The Private Fund and other Client Accounts may be limited or restricted in their ability to participate in certain initial public offerings ("IPOs") pursuant to certain restrictions, such as IPO allocation rules issued by the Financial Industry Regulatory Authority, Inc. ("FINRA"). This may result in some Client Accounts not being able to fully participate, or to participate at all, in such opportunities. The offering document for the Private Fund contains more information about how investment opportunities may be allocated. Model portfolios do not participate in IPOs due to the timing of when model portfolios are communicated to the Sponsors.

H&W provides a variety of services for, and advice to, various clients, including issuers of securities that H&W may recommend for purchase or sale by clients. In the course of providing these services, H&W may come into possession of material, nonpublic information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, H&W may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, including H&W's clients.

In particular, in connection with investment in distressed debt instruments, H&W may seek representation on creditors' committees. As a member of a creditors' committee, H&W may owe certain obligations generally to all creditors similarly situated that the committee represents and may be subject to various trading or confidentiality restrictions. In addition, the size of an equity holding in a particular issuer, or contractual rights or arrangements obtained by an H&W account in connection with an investment, may enable the account to designate one or more directors to serve on the boards of entities in which the account invests. As a member of the board, H&W may come into possession of non-public information and may be subject to various trading or confidentiality restrictions either contractually or pursuant to applicable securities laws. While such board and committee representations may enhance H&W's ability to influence the outcome of the investments for its clients, it may also have the effect of impairing the ability of all H&W clients from engaging in any transactions with respect to securities of such issuer.

H&W may enter into non-disclosure agreements or come into possession of information that restricts our ability to trade securities that are held by clients of different strategies. These restrictions may have an adverse impact on one group of clients while benefiting another group. In certain situations H&W will purchase different classes of securities of the same company (e.g. senior debt, subordinated debt, and or equity) in different investment strategies which can give rise to conflicts. For example, in a distress restructuring of a company's capital structure, H&W may advocate for the benefit of one class of security which may be adverse to another security that is held by clients of a different strategy. H&W seeks to mitigate the impact of these conflicts on a case by case basis.

### **C. Personal Trading**

H&W believes that if investment goals are similar for clients and for employees of H&W, it is logical and even desirable that there be common ownership of some securities. At the same time, H&W recognizes that there is a risk that employees will compete with Client Accounts or otherwise engage in personal securities transactions at the expense of a client's interest. H&W's Code requires that all such transactions be carried out in a way that does not endanger the interest of any client. The Code establishes certain black-out periods, pre-clearance procedures and a personal trading monitoring system that is designed to review transactions in employees' personal accounts and seeks to prevent any conflicts that may arise between employees' personal securities transactions and transactions for clients of H&W. For these purposes, an employee's "personal account" generally includes any account (i) in the name of the employee, his/her spouse, his/her minor children or other dependents residing in the same household, (ii) for which the employee is a trustee or executor, or (iii) which the employee controls.

## **D. Concurrent Trading Activity**

Under H&W's Code, employees are generally subject to personal trading black-out periods surrounding securities transactions for Client Accounts.

Transactions for Client Accounts generally will be effected independently from other Client Accounts. However, there will be occasions on which transactions to purchase or sell the same security may be effected at the same time for numerous accounts, some of which accounts may have similar investment objectives. See Item 12(B) for a description of H&W's aggregation and allocation procedures.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Selection of Broker-Dealers**

H&W renders investment advice on both a discretionary and non-discretionary basis. Generally, H&W's clients give investment discretion to H&W. When H&W has investment discretion, it is authorized to make all investment decisions and to direct the execution of all transactions for the Client Accounts (subject to the investment objectives and guidelines applicable to the account) without consulting with the client in connection with each transaction. Clients may temporarily limit H&W's discretion at any time.

Some clients may arrange for H&W to manage their assets on a non-discretionary basis, which means that H&W generally must obtain approval from such clients prior to effecting investment transactions. As with clients who direct brokerage, non-discretionary clients may not benefit from bunched orders, and may have execution of their orders delayed, which may result in the client receiving a price that is less favorable than that obtained for discretionary clients and paying higher commissions or spreads. In addition, non-discretionary clients may be delayed in or precluded from participating in certain investment opportunities that are available to discretionary clients as a result of H&W's inability to obtain client consent in a timely fashion.

As indicated in Item 4, H&W provides model portfolio investment recommendations to Sponsors without execution or additional services. The recommendations may be provided on a delayed basis relative to transactions of discretionary Client Accounts. The Sponsors and not H&W are responsible for selection of broker-dealers for all trades for their clients utilizing the model portfolio.

H&W may make recommendations and take actions with respect to a particular Client Account that may be the same or may differ from the recommendations made or the timing or nature of action taken with respect to other Client Accounts.

*Directed Brokerage.* H&W may effect investment transactions for certain clients through the brokerage firm specified in the client's management contract or as the client may otherwise instruct in writing. Brokerage fees paid by these clients may vary depending upon each client's arrangement with the brokerage firm or upon other factors such as the size of the transaction and the market for the security. Clients directing H&W to use specific broker-dealers for transactions (i) may pay higher commissions on some transactions that might be attainable by H&W, (ii) may receive less favorable execution of some transactions, (iii) may forego the possible benefit of volume discounts for aggregated transactions, (iv) may not be able to participate in new issues sold by other broker-dealers, (v) may restrict H&W's ability to receive research-related products and services available from other broker-dealers and (vi) may not begin to execute transactions with a broker-dealer directed by the client until all non-directed brokerage orders are completed. H&W's ability to obtain best execution for such clients may be hindered by the directed brokerage relationship.

Directed brokerage trade orders may be included in an aggregated transaction with instructions that the broker-dealer execute the transaction and then “step out” a portion of the commission to the client’s directed broker-dealer. Client directed commission rates for step out trades may differ from the rate negotiated with the executing broker-dealer in the aggregated transaction.

*Restricted Brokers.* Certain clients may restrict the use of specific brokerage firms for their accounts. Clients directing H&W to not use specific broker-dealers for transactions (i) may receive less favorable execution of some transactions, (ii) may forego the possible benefit of volume discounts for aggregated transactions, (iii) may not be able to participate in new issues sold by restricted broker-dealers, (iv) may not be able to purchase the same security from other broker-dealer’s inventory, (v) may restrict H&W’s ability to receive research-related products and services available from other broker-dealers and (vi) may not begin to execute transactions with another broker-dealer until all non-restricted brokerage orders are completed. H&W’s ability to obtain best execution for such clients may be hindered by the restriction on the broker-dealer.

Restricted brokerage trade orders may be included in an aggregated transaction with instructions that the broker-dealer execute the transaction and then “step out” a portion of the commission to a different broker-dealer for agency trades. Commission rates for step out trades may differ from the rate negotiated with the executing broker-dealer in the aggregated transaction.

*Execution Quality.* Where H&W has discretionary authority to determine the broker or dealer to be used and the commission rate to be paid, H&W will seek to obtain the best execution available under the circumstances. A number of factors are considered in arriving at such determinations. These factors include, but not limited to, research capabilities, execution capabilities, back office and processing capabilities, reputation and perceived soundness of the firm and the level of commission rates that can be obtained. H&W does not adhere to any rigid formulas in making the selection of the applicable broker-dealer, but weighs a combination of the preceding criteria.

While H&W generally seeks competitive commission rates in those instances where it is authorized to do so, it may not necessarily pay the lowest commission or spread available. Transactions may involve specialized services on the part of the broker or dealer involved and thereby entail higher commissions or spreads than would be the case with other transactions with more routine services. In certain situations to facilitate best execution, H&W may use alternative trading systems (i.e., electronic crossing networks, etc.) in lieu of placing a trade order with a traditional brokerage firm for liquidity, anonymity, and lower transaction costs, if relevant.

H&W may engage in security transactions with brokers who may also sell shares of Hotchkis & Wiley Funds provided that it reasonably believes that the broker will provide best execution. However, there are no quid pro quo arrangements or agreements in place with these brokers. Furthermore, H&W has implemented procedures reasonably designed to prevent its traders from considering sales of Fund shares as a factor in the selection of broker-dealers to execute portfolio transactions for each Fund. However, trading with these brokers may raise the appearance of a conflict of interest.

Dealers in fixed-income securities make a profit through the “spread,” the difference between the issuer’s fixed-income security price and the marked-up price offered to buyers (in the initial offering) or the difference between the quoted bid and ask prices (in secondary market trading). Spreads can differ based on, among other things, the availability of the security and the size of the transaction. Unlike the cost of trading that is incurred in equity security transactions, the cost of trading fixed-income instruments is unstated on a per security basis and is reflected in the marked-up price of those instruments. Mark-ups are generally not recorded on fixed-income transactions.

For fixed-income transactions, the portfolio managers evaluate broker-dealers on an ongoing basis and best execution for a trade is determined at the time of the trade, taking into consideration the broker-dealer's capabilities, including but not limited to, the impact of trading in the market, bid-ask spread, access to new issues and the ability to timely execute orders. As part of the best execution review, H&W periodically reviews fixed-income transaction prices against prices provided by a third-party pricing source.

For foreign securities transactions in local markets, trades on foreign exchanges may incur greater transaction charges than trades effected on U.S. exchanges. For certain accounts that may not be able to hold foreign denominated securities because of investment restrictions or custodial limitations, H&W may purchase ordinary shares in foreign markets and arrange for these ordinary shares to be converted into depository receipts. Fees and costs associated with the conversion and transaction of such shares of depository receipts are typically included in the net price of the security and borne by the client.

Research Services; Client Commission Arrangements. For equity agency trades, when more than one broker-dealer is believed capable of providing the best combination of price and execution, H&W may select a broker-dealer based in part upon brokerage and research services it will provide or purchase for H&W and its clients. Selecting a broker-dealer in recognition in part of brokerage and research services or products it provides, rather than based solely upon its ability to execute transactions, is known as paying for those services and products with soft dollars. To the extent research services may be a factor in selecting broker-dealers, "research" may be in written form, through direct contact with individuals, attendance at conferences, access to data and analytics, or may be provided by a third-party vendor. Research services may include (but not limited to) information regarding the economy, industries, sectors of securities, individual companies, statistical information, security valuation information, and performance analytics. During the last fiscal year, the primary research services H&W obtained through soft dollars were research reports and analyses (e.g., public policy, industry, company, credit, covenant); meetings and conference calls with company managements, industry experts and analysts; and investment related data.

Because many of those research services or products could be considered to provide some benefit to H&W as well as its clients, and because client commissions used to acquire them are assets of H&W's clients, H&W may have a conflict of interest in allocating client brokerage business. H&W will make decisions involving soft dollars in a manner that satisfies the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). That is, H&W will generally determine, considering all appropriate factors, that the commissions paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. H&W may pay a higher commission than otherwise obtainable from other broker-dealers in return for such products and services only if a good faith determination is made that the commission is reasonable in relation to the products and services provided. "Commissions" include fees paid to broker-dealers for trades conducted on an agency basis, and certain mark-ups, markdowns, commission equivalents and other fees received by dealers in riskless principal transactions.

H&W utilizes client commission arrangements ("CCA") with certain broker-dealers. Under a CCA, H&W may effect transactions through a broker-dealer and request that broker-dealer to pay other broker-dealers, independent research providers and third-party vendors based on commission targets. The use of CCAs is intended to assist H&W in providing credits to broker-dealers or third-party research providers who, in its judgment, provide the best access to analysts and management, and to independent research providers, while using reliable executing broker-dealers which H&W believes will benefit its Client Accounts.

In accordance with Financial Industry Regulatory Authority ("FINRA") regulations, H&W may also purchase new issues of securities for Client Accounts in a fixed-price offering. In these situations, the selling dealer may be a member of the selling group that will, in addition to selling the securities, provide the firm with research.

If required under applicable fiduciary regulations, research H&W acquires through the use of soft dollars that were generated in principal trades will be used only to directly benefit the client account for which the trades were made. Soft dollars derived from principal trades that are not restricted in use under fiduciary requirements may be used to obtain research that benefits client accounts other than the client account that generated the brokerage, with prior consent from the client.

H&W's investment team supports the firm's equity and income strategies. Investment analyses and ideas from research services provided by broker-dealers are considered to benefit all investment strategies. Research services provided by broker-dealers may be used in servicing any or all of H&W's Client Accounts across all of the firm's investment strategies, and may be used in connection with Client Accounts other than those whose trading generated the soft dollars that paid for such services. Typically, income accounts execute securities transactions on a principal basis and generate less brokerage commissions to pay for research services, which may result in a less proportionate amount of commissions paid for research services than equity accounts. If a research product provides both a research and a non-research function, H&W will make a reasonable allocation of the use and pay for the non-research portion with hard dollars. The allocation between research and non-research depends on the use of the product.

H&W seeks to ensure that all equity accounts pay comparable commission rates per transaction and for equity accounts to participate fairly in both execution trades only and research and execution trades. Clients that participate in directed brokerage arrangement may pay higher commissions.

On a periodic basis, typically every quarter, H&W's portfolio managers/analysts complete a broker survey and evaluate each full service broker-dealer with regards to the research and service abilities. Investment personnel rate broker-dealers based on: (i) service – access to broker-dealers firm resources and (ii) research – the quality of research and impact on portfolios. Traders evaluate broker-dealers on an ongoing basis and best execution for a trade is determined at the time of the trade, taking into consideration the broker-dealer's capabilities, including but not limited to, the impact of trading in the market, total execution cost, and the ability to timely execute orders. At each quarter end, the traders evaluate the year-to-date and quarterly commissions paid to non-research broker-dealers and comment on significant or special circumstances. During the last fiscal year, H&W directed client transactions to particular brokers based on the periodic broker survey results previously described.

The types of brokerage services that H&W obtained during the last fiscal year include execution, clearing and settlement services, exchange of messages among brokers, custodians and institutions; communication services related to the execution, clearing and settlement of securities transactions and other incidental services.

## **B. Aggregation and Allocation of Orders**

H&W may group orders (including orders of proprietary accounts with the firm which are treated as clients) to obtain the efficiencies that may be available on larger transactions when it determines that investment decisions are appropriate for each participating account and consistent with the terms of the investment management agreement with each client. Moreover, H&W will not aggregate transactions unless it believes that aggregation is consistent with its duty to seek best execution for its clients. Certain clients may not be included in all trade allocations due to client restrictions or other factors.

When aggregating orders for equity accounts, no client is favored over any other client; each client participating in the aggregated order will participate at the average share price for that order in that security on a given business day, with transaction costs shared pro rata based on each client's participation in the transaction (except for client-directed trades which may be charged a different commission rate). Partially-filled orders for securities purchased or sold in a batched transaction (including IPOs) are allocated pro rata, when possible, to the participating Client Accounts in

proportion to the size of the original allocation for each account. H&W may deviate from this procedure based on an account's cash availability and/or requirements, an account's investment guidelines, an account's tax sensitivities, an investment strategy's parameters, etc.

H&W's allocation procedures for fixed-income securities include screening portfolios for minimum permissible security quality, average portfolio quality, other quality restrictions as well as a variety of sector and subsector related restrictions and preferences. Portfolios that do not allow the quality of the security being purchased are eliminated from the allocation process. Another step involves sorting portfolios by the sector and sub-sectors to which the purchased security belongs. Emphasis is given to portfolios that are the most underweight relative to the target portfolio weighting in the relative sector. Position size is also a factor in this process as available cash and other considerations might prohibit allocation to certain accounts. Given the nature and supply of certain fixed-income securities, a portfolio may be allocated a security comparable to that received by other accounts. H&W may not obtain desired quantities of a fixed-income security due to market conditions, but may obtain more of such securities later in the trading period. In these situations, H&W will allocate the securities obtained based on the factors described above and settle the initial trades. New allocations will occur if additional fixed-income securities become available later in the trading period, using the same criteria outlined above. H&W does not give preference to portfolios based upon size, fees, performance, or any other criteria other than those outlined above.

H&W may increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd-lot or small numbers of shares/par for particular clients. Additionally, if H&W is unable to fully execute a batched transaction and H&W determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro rata basis, H&W may allocate such securities using the "random" allocation program in the trading system or allocate such securities in a manner determined in good faith to be a fair allocation. Fair allocation may be based on cash availability and/or requirements, portfolio investment objectives, client guidelines and diversification benefit to the individual accounts (including an account's dispersion to the strategy's target portfolio).

Generally, the larger the block trade or portion thereof that is filled, the more likely a small account is to get an allocation. For a small partial fill of a block trade, small accounts may not receive an allocation if the shares do not round up to 100 shares/bonds. Small incremental changes to the target portfolio usually will not provide an allocation to the small accounts. Also, certain bonds may have minimum allocation quantities, which may limit allocation to small accounts.

Under certain circumstances, H&W may not aggregate orders for the same security if it is not consistent with its duty to seek best execution. For example, if an account receives a cash withdrawal and needs to execute a program trade (sale of securities across the portfolio in proportion to the cash withdrawal), H&W may not deem it appropriate to include the order for a security which is currently being sold for several accounts at the same time. Therefore, the same security may be transacted at different prices that day.

Under certain type of client arrangements where the trading of securities is done by the client and/or third-party, H&W may provide such client with security trades after the firm has substantially completed transactions in such securities on behalf of all other discretionary Client Accounts of the firm. In situations where H&W does not execute trades for the Client Accounts, the client may not benefit from bunched orders, and may have execution of their orders delayed, which may result in the client receiving a price that is less favorable than that obtained for H&W's other clients and paying higher commissions or spreads.

As noted in Item 4, H&W provides model portfolios to Sponsors. Updates to the model portfolios will occur only after H&W completes all the corresponding trades for Client Accounts that utilize the same investment strategy. This could

potentially result in the Sponsors' clients receiving prices that are less favorable than the prices obtained by H&W for its Client Accounts. Similarly, model portfolio related trading activity by Sponsors on behalf of their clients could potentially result in H&W's Client Accounts receiving prices that are less favorable than prices that might otherwise have been obtained absent the Sponsors' trading activity.

H&W may aggregate client transactions with instructions that the broker-dealer execute the transaction and then "step out" a portion of the commission to another broker-dealer. Step out trades may be used to compensate a broker-dealer for research or in a client directed arrangement. In this situation, Client Accounts participating in the aggregated transactions (including research and client directed trades) may receive the possible benefit of volume price discounts negotiated with the broker-dealer. However, commission rates for step out trades may differ from the rate negotiated with the executing broker-dealer in the aggregated transaction.

Different type of Client Accounts and investment strategies may have different fee structures. Certain Client Accounts may pay H&W performance-based compensation, which may vary depending on how well the account performs compared to a benchmark. Because such compensation arrangements have the potential to create an incentive for the firm to favor such accounts in making investment decisions and allocations, H&W has adopted policies and procedures reasonably designed to ensure that all of its clients are treated fairly and equitably.

*Allocation of Investment Opportunities.* H&W makes decisions to recommend, purchase, sell or hold securities for all of its Client Accounts, including proprietary and/or affiliated Client Accounts, based on the specific investment objectives, guidelines, restrictions and circumstances of each account. Different Client Accounts may have differing investment strategies and expected levels of trading. H&W may buy or sell a security for one type of Client Account but not for another, or may buy (or sell) a security for one type of Client Account while simultaneously selling (or buying) the same security for another type of Client Account. It is H&W's policy to allocate, to the extent operationally and otherwise practical, investment opportunities to each client over a period of time on a fair and equitable basis relative to its other clients. There may be instances where some clients may participate in certain opportunities made available to H&W while other clients may not. Where Client Accounts, including mutual fund clients, have competing interests in a limited investment opportunity, including participation in new issues and company-specific ownership limits, H&W will allocate investment opportunities based on relevant considerations, including appropriateness of company market capitalization, cash availability and/or requirements, current portfolio holdings, investment objectives and restrictions.

At times, H&W will determine, in an exercise of its discretion, to limit or refrain from entering into certain transactions, for some or all clients, in order to seek to avoid a potential conflict of interest, or where legal, regulatory, administrative or other costs associated with entering into the transaction are deemed by H&W to outweigh the expected benefits. For certain regulatory or legal restrictions or limitations and internal policies may restrict certain investment or voting activities of H&W on behalf of its clients.

H&W has procedures in place to ensure compliance with the FINRA's rules and restrictions relating to distribution of new issues. Certain clients may also be restricted in participating in securities offerings where they may have a restricted and/or affiliated broker-dealer who is part of the security underwriting syndicate and, therefore, subject to specific regulatory requirements. H&W may elect not to participate in such security offerings for that client account because of regulatory and contractual requirements. These procedures and rules may restrict participation by certain accounts.

### **C. Trade Errors**

A potential conflict of interest may arise when H&W determines whether or not a trading error has occurred. H&W will review all relevant facts and circumstances to determine an appropriate course of action. Upon the detection and



review of an error which results in a realized loss for a client, H&W will seek to have the responsible party reimburse the client for losses attributable to such error. H&W will reimburse the client for losses due to trade errors for which H&W is responsible. In determining the net impact to a client's account due to an error, the potential loss opportunity may not be included in the analysis and calculation. H&W does not view trade exceptions that were detected and corrected prior to settlement as a trade error in the client's account. H&W will notify clients of trade errors that occur in their accounts in accordance with contractual requirements.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Periodic Account Review**

H&W manages individual and institutional separate accounts, private investment funds and mutual funds. Investment reviews and decision-making are performed by H&W's investment staff, including portfolio managers, on an ongoing basis. For the equity strategies, the investment process employed is the same for similar accounts and is team-based utilizing primarily in-house, fundamental research. The investment research staff is organized by industry and sector and supports all of the Client Accounts managed in each of H&W's investment strategies. Portfolio coordinators for each strategy ensure that the best thinking of the investment team is reflected in the "target portfolios." For the high yield strategy, the portfolio managers review Client Accounts and portfolio holdings on the trading system.

### **B. Non-Periodic Account Review**

Programmable guidelines and restrictions for the firm's investment strategies are coded into the compliance module of the firm's trading system, which provides for pre-trade, post-trade and batch trade compliance checks. Potential trade violation flags are reviewed and closed by the Compliance Department. The Compliance Department also prepares a formal compliance checklist monthly for compliance with client guidelines and applicable law.

### **C. Client Reports**

H&W and/or the qualified custodian or administrator of each Client Account will transmit unaudited monthly and/or quarterly performance reports and account statements to clients and/or their consultants. Investors in the Private Fund also receive audited financial statements of that fund every year. H&W may make the reports available in hardcopy or solely via electronic transmission or in electronic form on its website unless otherwise requested by a client. H&W, in its discretion, may provide more frequent reports and/or more detailed information to all or any clients.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. Compensation By Non-Clients**

H&W receives certain research services (see *Research Services; Client Commission Arrangements* section in Item 12A above) from non-clients. Such research services may be paid by commission dollars generated by Client Accounts. H&W receives compensation from Sponsors in connection with their purchase of H&W's model portfolios.

Subject to H&W's gift and entertainment policies, H&W or its employees may receive gifts and/or entertainment from broker-dealers who execute trades for Client Accounts and other service providers. H&W's policy limits gifts received to \$100 per person per service provider for each calendar year. Further, H&W's policy requires reporting of gifts and entertainment (which exceeds \$100 per event) by a service provider and quarterly employee gift/entertainment certifications.

## **B. Compensation for Client Referrals**

Subject to applicable law, H&W may employ solicitors to whom it will pay either a portion of the advisory fees received from clients referred by such solicitors or cash at H&W's own expense. In such cases, this arrangement will be disclosed in writing to the client and H&W will comply with any other applicable requirements under Rule 206(4)-3 under the Advisers Act. In particular, H&W will ensure that each solicitor provides clients with a current copy of H&W's Form ADV Brochure and the solicitor's written disclosure document.

H&W maintains an internal bonus compensation plan which may reward employees for new Client Account relationships developed by them. This plan will also comply with Rule 206(4)-3 under the Advisers Act. For certain state and local government clients, compensation plans will also comply with the respective state and local government jurisdictions and any applicable rules and regulations.

### **ITEM 15: CUSTODY**

H&W will not maintain possession or custody of the funds or securities that a client transferred to a Client Account. The assets transferred by a client will typically be deposited with a qualified custodian selected by the client. The qualified custodian will provide clients with periodic account statements and performance reports. The clients' custodians maintain Client Accounts' official accounting records. Information in the H&W account statements may differ from the custody statements based on various items, such as accounting procedures, reporting dates, or valuation methodologies of certain securities. Clients should carefully read these reports and compare any reports received from H&W against reports received from the qualified custodian.

H&W serves as general partner to the Private Fund and as such is deemed to have custody of that fund's assets. Limited Partners in the Private Fund receive written quarterly statements and an annual audited report.

### **ITEM 16: INVESTMENT DISCRETION**

For its discretionary Client Accounts, H&W generally has full authority to determine, without obtaining specific client consent, the securities and amount of securities to be bought or sold, broker or dealer to be used and commission rates to be paid on behalf of the client. Clients may specifically direct H&W in writing to limit the foregoing authority. H&W's discretionary authority is derived from the investment management agreement executed by each Managed Account and Investment Company client, and from the limited partnership agreement of the Private Fund. Customary restrictions on H&W's authority may include limits on the amount of total account assets invested in a single company, industry, or country, or in cash, emerging markets, or derivative instruments. H&W's discretionary authority with respect to a Managed Account or Investment Company client may be subject to the client's ability to direct H&W to effect brokerage business for its account to a particular broker. See Item 12(A) above.

H&W does not make any investment decisions or exercise investment discretion in connection with the provision of its model portfolios to Sponsors. In this situation, H&W provides data and recommendations to the Sponsors who make the ultimate investment decision for their clients.

H&W is not obligated to acquire for any account any security that H&W or its officers, partners, members or employees may acquire for its or their own accounts or for the account of any other Client, if in the absolute discretion of H&W, it is not practical or desirable to acquire a position in such security.

## ITEM 17: VOTING CLIENT SECURITIES

Generally, and except to the extent that a client otherwise instructs H&W in writing, H&W will vote or abstain from voting (by proxy or otherwise) on all matters for which a shareholder vote is solicited by, or with respect to, issuers of securities beneficially held in Client Accounts in such manner as H&W deems appropriate in accordance with its written policies and procedures. These policies and procedures set forth guidelines for voting typical proxy proposals. However, each proxy issue will be considered individually in order that H&W may consider what would be in its client's best interest. Further, where a proxy proposal raises a material conflict of interest between the interests of H&W and its client, H&W will vote according to its predetermined specific policy. H&W's Proxy Oversight Committee will review the vote to determine that the decision was consistent with established guidelines and not prompted by any conflict of interest.

H&W may determine not to vote proxies in respect of securities of any issuer (i) if H&W determines that it would be in the client's overall best interest not to vote under the circumstances, such as when (a) the cost of voting exceeds the expected benefit to the client, (b) voting the client's proxies will not have an effect on the outcome of the matter up for vote or (c) the matter up for vote will not impact the client's economic interests; (ii) if H&W does not receive adequate information from the client's custodian or proxy vendor in sufficient time to cast the vote; or (iii) if the security is no longer held in the clients' portfolios by the proxy meeting date. For example, to the extent that H&W receives proxies for securities that are transferred into a client's portfolio that were not recommended or selected by H&W and have been sold or are expected to be sold promptly in an orderly manner ("legacy securities"), H&W will generally refrain from voting such proxies. In such circumstances, since legacy securities have been sold or are expected to be sold promptly, H&W may determine that voting proxies on such securities would not further a client's interest in maximizing the value of its investments. H&W will consider a Managed Account client's special request to vote a legacy security proxy, and if agreed would vote such proxy in accordance with H&W's guidelines.

Non-U.S. proxies (and particularly those in emerging markets) may involve a number of restrictions preventing H&W's ability to vote. H&W will vote such proxies to the extent it is feasible to do so.

Certain client accounts may purchase unsponsored American Depositary Receipts (ADRs) where shareholder benefits and voting rights may not be extended to the holders of these particular securities.

Fixed-income securities normally do not provide voting rights; however, special circumstances may occur that permit voting or responding to another type of corporate action.

Certain clients have specifically elected to retain the responsibility for receiving and voting proxies for securities maintained in their portfolios and receive their proxies or other solicitations directly from their custodian. H&W will not vote the proxies for these securities in this case, but may provide advice to clients regarding the clients' voting of proxies.

If H&W has the authority to exercise proxy voting rights for a Client Account, H&W will vote, or abstain from voting, the proxies for securities beneficially held by the custodian for the portfolio as of the record date of the shareholder meetings (settlement date). Securities not held by the custodian as of the record date (e.g., due to an unsettled purchase or securities lending) will not be voted by H&W. Employees of H&W may own the same securities held by Client Accounts. The employees vote their securities independently from H&W's proxy voting policy.

H&W utilizes a third-party service provider to provide administrative assistance in connection with the voting of proxies, including certain record keeping and reporting functions.

A client may obtain a copy of H&W's proxy voting policies and procedures and/or information on how H&W has voted the client's securities free of charge by written request to [hwclient@hwcm.com](mailto:hwclient@hwcm.com).

*Corporate Actions:* There may also be a variety of corporate actions or other matters for which shareholder action is required or solicited and with respect to which H&W may take action that it deems appropriate in its best judgment except to the extent otherwise required by agreement with the client. These actions may include, for example and without limitation, tender offers or exchanges and bankruptcy proceedings.

*Legal Proceedings and Class Action Litigation:* If a client has a claim or potential claim in any bankruptcy proceeding, class action securities litigation, or other litigation or proceeding affecting securities held in the client's account, H&W will not be obligated to pursue such claim on behalf of the client, but will provide the client or its custodian with reasonable assistance in support of the client's pursuit of such claim while the account is managed by H&W.

#### **ITEM 18: FINANCIAL INFORMATION**

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

#### **ADDITIONAL INFORMATION**

##### **BUSINESS CONTINUITY PLAN**

H&W maintains a formal Business Continuity Plan that addresses the recovery of critical business functions and operations. The plan outlines the procedures necessary to re-establish operations in an organized manner and addresses: (i) emergency response; (ii) resumption of critical functions; (iii) recovery of non-critical functions; and (iv) restoration at a new or restored business location. The recovery time objective for critical functions is 24 hours from the arrival of appropriate staff at the recovery location. H&W has contracted with a third-party service provider for an alternate site in which to resume business operations. In the event of a significant business disruption, clients can access information on H&W's website at [www.HWCM.com](http://www.HWCM.com).