

# M.D. Sass Investors Services, Inc. Part 2A of Form ADV The Brochure

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**This brochure provides information about the qualifications and business practices of M.D. Sass Investors Services, Inc. (“MDSIS”). If you have any questions about the contents of this brochure, please contact us at 212-730-2000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about MDSIS is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Material Changes

MDSIS's most recent update to Part 2A of Form ADV was made on April 20, 2017. MDSIS's Part 2A of Form ADV is being updated to reflect the change in MDSIS's ownership. Please review the section entitled "Advisory Business" herein for more information.

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## Advisory Business

MDSIS serves as an investment manager or general partner to private and public investment funds, separately managed accounts and other investment vehicles with various investment strategies, including, without limitation, investments in taxable fixed income, equities, tax liens and fund of funds investments. MDSIS is part of a group of affiliated investment advisers, certain of which are registered with the SEC.

MDSIS is the general partner of a private fund: New Heights Fund, L.P., which is a Delaware limited partnership originally formed in August 1999 and renamed in January 2015 ("New Heights") (formerly known as M.D. Sass Maximus Partners, L.P.).

MDSIS is also the investment manager of M.D. Sass 1-3 Year Duration U.S. Agency Bond Fund, an SEC registered mutual fund established in June 2011 (the "Bond Fund" and, together with New Heights, the "Funds").

New Heights invests principally in publicly traded equity securities. The Bond Fund invests in intermediate-term U.S. government agency issued and/or guaranteed mortgage back securities ("MBS"), collateralized mortgage obligations ("CMOs") and similar high credit quality securities.

We refer to the Funds, the separately managed accounts and other investment vehicles that we manage as “Clients” in this brochure.

For each Fund, investment advice is provided directly to the Fund and not individually to the investors in the Funds. MDSIS manages the assets of each Fund in accordance with the terms of the governing documents applicable to each Fund.

MDSIS also provides investment management services to clients through separately managed accounts and other investment vehicles. Investment strategies for these clients may include relative value equities, equity income plus, taxable fixed income and tax liens, and combinations of relative value equities, equity income plus and taxable fixed income (which we refer to herein as “balanced accounts”). MDSIS is also a sub-adviser to the Saratoga Large Capitalization Value Portfolio, a registered mutual fund. Separate account and other investment vehicle management is continuously provided for each client based on agreed upon investment objectives and may be subject to additional restrictions imposed by the Client.

MDSIS also participates as an investment manager in three wrap fee programs:

The “Separately Managed Account Program”, sponsored by Envestnet Asset Management, Inc.; and

The “Separate Account Network”, sponsored by Fidelity Institutional Wealth Services c/o HighTower Advisors.

The “Unified Managed Account Program”, sponsored by Merrill Lynch, Pierce, Fenner & Smith Incorporated.

For the Envestnet Asset Management, Inc. and Unified Managed Account programs, MDSIS solely provides a model portfolio to the respective program sponsor, which is then used to manage investor accounts, but MDSIS does not actively manage any investor account itself. MDSIS receives a portion of the wrap fee collected by the program sponsors for MDSIS’s services.

A corporation formed under the laws of the state of Delaware in April 1972, MDSIS is controlled solely by Martin D. Sass as of January 1, 2018. As of December 31, 2017, MDSIS managed regulatory assets under management of \$1,901,495,772 on a discretionary basis.

## **Fees and Compensation**

MDSIS generally receives a management fee and, for some Clients, may receive a performance fee or performance allocation, as applicable, for providing investment management services. (Please see “Performance Based Fees and Side-by-Side Management” below.) Management fees are generally payable quarterly and are payable for any period that is less than a full quarterly period.

The standard percentage of net assets annual fee for relative value equity (“RVE”) accounts is 0.70% on the first \$25 million, 0.60% on the next \$25 million, 0.50% on the next \$50 million and negotiable thereafter. The standard percentage of net assets annual fee for equity income plus

("EIP") accounts is 1.00% on the first \$10 million, 0.85% on the next \$25 million, and 0.75% on the assets above \$35 million. The standard percentage of net assets annual fee for a taxable fixed income ("TFI") account is 0.40% on the first \$25 million, 0.35% on the next \$25 million, 0.25% on the next \$50 million, and negotiable thereafter. Management fees are billed to the separately managed account.

All Clients will also incur brokerage and other transaction costs. Please review the section entitled "Brokerage Practices" herein for more information.

MDSIS may, at its discretion, negotiate fees which vary from and may be lower than the standard fee schedule rates for RVE, EIP and TFI accounts. For example, MDSIS is a sub-adviser to the Saratoga Large Capitalization Value Portfolio; the investment adviser to this registered mutual fund pays MDSIS a fee that is lower than MDSIS's basic fee schedule. In addition, MDSIS may accept accounts below the minimum standard account size of \$5 million, in which case the percentage of net assets annual fee is generally 1.00% for RVE and EIP accounts and 0.50% for TFI accounts, subject to negotiation at the discretion of MDSIS.

Fees for balanced and other accounts are based on various factors, including the investment strategy, and their size and asset allocation guidelines; accordingly, the fees are negotiable and are not subject to any standard fee schedule.

For New Heights, the net assets annual management fee is 1.00% to 1.50%. For the Bond Fund the net assets annual management fee is 0.30%. Both management and performance fees/allocation are deducted from the Funds by MDSIS. New Heights may enter into separate agreements, commonly referred to as "side letters", to change the management and performance fees/allocation applicable to certain investors (please see "Types of Clients" below).

In addition, MDSIS, in its sole discretion, may waive, reduce or rebate all or a portion of the management fee and/or performance fee/allocation and interest thereon in respect of any investor. No such waiver, reduction or rebate for the benefit of any investor will entitle any other investor to such waiver, reduction or rebate.

Detailed information regarding the fees charged to the Funds is provided in New Heights' confidential offering memorandum and other governing documents, and in the Bond Fund's prospectuses and statements of additional information. In addition to management fees and performance fees/allocation, investors of the Funds will bear indirectly the fees and expenses charged to the Funds. Those fees and expenses will vary, but typically will include fees associated with making or selling portfolio investments, legal and accounting fees, taxes, commissions and brokerage fees, registration expenses, fees to government regulatory agencies, the cost of directors' and officers' liability insurance and other expenses, such as litigation.

In the case where a Client's account is invested in money market funds that pay a management fee to their own adviser, the Client is in effect paying two management fees. Clients indirectly pay an investment management fee to the money market fund manager which is in addition to the investment management fee paid to MDSIS.

Either MDSIS or the Client may terminate an investment management agreement per the terms negotiated therein. Notice of termination must be given to the other party in writing. Each Client is responsible to pay for services rendered until the termination of its respective investment management agreement. Management fees are generally payable in arrears; however for certain Clients management fees are payable in advance. Upon termination, the fees charged for investment management services will be pro-rated, and a pro rata refund for any unearned fees will be issued if any fees have been paid in advance.

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

MDSIS may be compensated based on performance, including up to 20% of profits in the case of New Heights, depending upon the strategies employed and the specific needs of the Client. Performance based fees may create an incentive for MDSIS to make investments that are riskier or more speculative than would be the case in the absence of a performance fee/allocation. Further, advisers have an inherent conflict of interest to favor accounts that pay more in fees, such as performance based fees. In order to address this conflict, MDSIS's allocation and aggregation policy provides that investment allocations are to be made pro rata across Client accounts with similar investment strategies. Notwithstanding the foregoing, because of the diversity of objectives, risk tolerances, fund or account investor-imposed limitations, tax situations, differences in the timing of capital contributions/withdrawals among various Clients, and other factors considered relevant by MDSIS, there may often be differences among the Clients in the weighting and cost basis of particular positions and in the particular securities and other-instruments held. MDSIS, at times, utilizes order management systems for assistance in determining whether a Client that should participate in an aggregated trade and how to allocate an investment opportunity.

## **Types of Clients**

MDSIS provides investment advice to the Funds and other clients, which may include, without limitation, corporate profit sharing and pension funds, partnerships, funds of funds, high net worth individuals and other substantial investors (endowment funds, corporate cash reserves, insurance companies, investment companies, trusts and estates and public sector employee benefit funds) through separately managed accounts and other investment vehicles.

Each Fund operates as a pooled investment vehicle intended to provide management expertise and other advantages to its investors. The minimum initial capital contribution for an investor of (i) the Bond Fund institutional share class is \$10,000, and (ii) for New Heights is \$1 million; however, with respect to New Heights, MDSIS maintains discretion to accept less than the minimum investment amount, subject to limitations under applicable law. In addition, New Heights may enter into separate agreements, commonly referred to as "side letters", with certain investors, to waive certain terms, or allow such investors to invest on different terms than those specifically described in the offering documents. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other investors.

Investors will be required to make certain representations when investing in New Heights, including but not limited to that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment and (iii) they have the ability to bear the economic risk of an investment in

the New Heights. Each investor will be furnished with a copy of the applicable operative document (e.g., limited partnership agreement, memorandum and articles of association, etc.) for New Heights and a prospectus and statement of additional information for the Bond Fund.

MDSIS generally requires a minimum separately managed account size of \$10 million for institutional accounts and \$5 million for individual and family accounts. Lower minimums generally apply in the case of limited partnerships or limited liability companies of which MDSIS is a general partner or managing member, or other MDSIS affiliates. MDSIS also may accept lower minimum account sizes in its discretion.

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

### **Methods of Analysis/Investment Strategies**

Our investment philosophy is to invest only where and when there is the potential to add value and where the related risk can be measured and controlled. This approach is applied to asset allocation decisions, as well as bond and equity selection. Our philosophy has remained constant over the years and emphasizes rotating between sectors in order to be opportunistic and achieve high returns with low risk.

#### ***New Heights***

For New Heights, MDSIS generally pursues a value-oriented long/short equity strategy with a long bias. However, MDSIS may also make substantial opportunistic investments in other strategies, including non-publicly traded equity securities and fixed-income instruments. MDSIS focuses on in-depth fundamental research, and through such research analyzes companies with attractive valuations. Emphasis for long positions is placed on “special situations” as well as companies with predictable sales, free cash flow and earnings growth, sustainable competitive advantages and high return on capital. Generally, New Heights will have a concentrated composition and limit the number of long positions to no more than 15. Additionally, no one long investment will represent more than 20 percent of net assets, and no one short position will represent more than 10% of net assets.

Investment decisions generally will be determined by fundamental bottom-up financial analysis confirmed by industry knowledge. MDSIS expects to have a general focus on equity securities and, in any event, intends to have at least a majority of its assets in publicly traded equities, although MDSIS may have substantial investments in non-publicly traded equities and fixed-income securities from time to time.

To achieve its investment objectives, MDSIS expects to invest across capitalization sizes and styles (small-, large- and mid-cap and value and growth). MDSIS intends primarily to invest in U.S. markets, but may also invest in global markets from time to time. In addition to investing in equities, MDSIS intends to seek exposure to a variety of debt investments, including corporate debt and other credit instruments, derivatives and other instruments, the allocation and selection of which will vary over time based upon both quantitative and qualitative analyses of the investment

potential and diversification benefits afforded to the entire portfolio by the addition or subtraction of a specific investment.

Please see the New Heights confidential offering memorandum for a more detailed description of New Heights' investment strategy.

### ***RVE***

MDSIS's RVE strategy is a relative value approach to investing in equities, which seeks to outperform relevant equity market indices through positive buy/sell disciplines. MDSIS searches for high-quality companies that it believes are misperceived or out of favor with positive long-term earnings growth prospects. MDSIS looks to buy when the risk-adjusted present value of estimated future earnings exceeds the market price by at least 25%.

MDSIS utilizes a multi-step, fundamental research process, focused on out-of-favor and/or misperceived companies that meet MDSIS's minimum liquidity and quality standards. Preliminary MDSIS company screening includes diligence on historical growth, competitive strength, free cash flow, debt leverage and trading liquidity. MDSIS analyzes candidates to understand reasons for price drops, how the market's perception may lag reality and catalysts for potential price rebound.

### ***Equity Income Plus***

MDSIS's EIP strategy seeks to generate income as well as capital appreciation, while emphasizing downside protection. MDSIS targets larger capitalization companies that pay regular dividends. Stocks are selected based on a consistent set of fundamental and valuation based criteria. In making its investments, MDSIS seeks to (i) sell out of the money call options to enhance income or lower the cost basis, and (ii) buy out of the money index puts to reduce downside risk.

### ***Bond Fund/TFI***

MDSIS's Bond Fund and TFI strategy invest primarily in intermediate-term U.S. government agency issued and/or guaranteed MBS, CMOs and similar high credit quality securities. MDSIS seeks to outperform fixed income benchmarks of comparable intermediate-term duration on a risk-adjusted basis. MDSIS's investment strategy is long-only. MDSIS currently does not borrow money to invest in securities.

MDSIS invests primarily in U.S. Treasuries, U.S. Agency securities and MBS and CMOs issued by government sponsored enterprises ("GSEs"), (e.g., Ginnie Mae (Government National Mortgage Association), Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation)), the payments of which are backed by GSEs.

MDSIS relies on rigorous analytical testing and will target stable Agency MBS and Agency CMOs which have relatively moderate degrees of cash flow uncertainty, with attractive yields relative to similar duration securities. MDSIS's fixed-income professionals focus on in-depth

fundamental research and utilize a variety of quantitative analyses to ascertain mortgage prepayment/extension risk and credit risk.

Please see the Bond Fund's prospectus for a more detailed description of the Bond Fund's investment strategy.

### **Risk of Loss**

All investing involves a risk of loss to each Client (and their respective investors), and the investment strategies offered by MDSIS could lose money over short or even long periods. No guarantee or representation is made that MDSIS will achieve its investment objective or that Clients will receive a return of their capital. In addition, the performance of the Clients' investments is substantially dependent upon the skill, judgment and expertise of MDSIS's primary portfolio managers. The death, disability or other unavailability of any of MDSIS's primary portfolio managers could be material and adverse to the performance of Clients' investments.

The description contained below is a brief overview of risks related to each of MDSIS's significant investment strategies.

### ***New Heights/RVE/EIP***

**Risks Associated with Investments in Securities.** Any investment in securities carries certain market risks. The value of the securities in which MDSIS invests fluctuates, and, therefore, the value of an investor's investment at the time it is redeemed may be more or less than such investment's value at the time of purchase. In particular, equities in which MDSIS invests may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. For example, MDSIS may invest in mid-cap companies, which involves additional risks such as limited liquidity and greater volatility than large capitalization companies. There is no assurance that MDSIS will achieve its investment objective of superior capital appreciation or avoid losses.

**Risks Associated with Lack of Diversification.** There are no absolute diversification or concentration constraints on MDSIS. If MDSIS's portfolio becomes relatively concentrated, the value of an investment in MDSIS may be subject to greater volatility and may be more susceptible to any single economic, political or regulatory occurrence or the fortunes of a single company or industry than would be the case if MDSIS's investments were more diversified.

**Stock Market Risk.** There is always a chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. MDSIS's strategies may, at times, become focused in stocks of a particular sector, category, or group of companies. Because MDSIS's investments do not have any diversification and/or concentration requirements, MDSIS's strategies may underperform the overall stock market.

**Manager Risk.** Poor security selection may cause MDSIS's strategies to underperform relevant benchmarks or other funds/strategies with a similar investment objective.



**Risks Associated with Investments in Options.** Investments in options may be more volatile than investments directly in the underlying securities, involve additional costs and may involve a small initial investment relative to the risk assumed. During the option period for a covered call option, the covered call writer has, in return for the premium received, given up the opportunity for capital appreciation above the exercise price should the market price of the underlying security increase, but has retained the risk of loss should the price of the underlying security decline. If an index put option were permitted to expire without being exercised, its premium would represent a realized loss.

For a more detailed discussion of the risks associated with an investment in New Heights, please see New Heights' confidential offering memorandum.

### ***Bond Fund/TFI***

**Fixed Income Securities Risks.** Interest rates may go up resulting in a decrease in the value of the fixed income securities held by MDSIS. Fixed income securities subject to prepayment can offer less potential for gains during a declining interest rate environment and similar or greater potential for loss in a rising interest rate environment. Limited trading opportunities for certain fixed income securities may make it more difficult to sell or buy a security at a favorable price or time.

**Issuer Risk.** Securities issued by U.S. Government agencies and instrumentalities have different levels of U.S. Government credit support. Some are backed by the full faith and credit of the U.S. Government while others are supported by only the discretionary authority of the U.S. Government or only by the credit of the agency or instrumentality. No assurance can be given that the U.S. Government will provide financial support to U.S. Government-sponsored instrumentalities because they are not obligated to do so by law. Guarantees of timely prepayment of principal and interest do not assure that the market prices and yields of the securities are guaranteed nor do they guarantee the net asset value or performance of MDSIS, which will vary with changes in interest rates, the Adviser's success and other market conditions.

### **Mortgage-Backed Securities Risks.**

*Prepayment Risk of Mortgage-Backed Securities.* In times of declining interest rates, MDSIS's higher yielding securities will be prepaid and MDSIS will have to replace them with securities having a lower yield.

*Extension Risk of Mortgage-Backed Securities.* In times of rising interest rates, mortgage prepayments will slow causing portfolio securities considered short or intermediate term to be long-term securities which fluctuate more widely in response to changes in interest rates than shorter term securities.

**Liquidity Risk.** The risk that a particular investment may be difficult to purchase or sell and that MDSIS may be unable to sell illiquid securities at an advantageous time or price or purchase securities in an amount sufficient to achieve its desired level of exposure.

**When-Issued Securities Risk.** The risk that the price or yield obtained in a when-issued transaction may be less favorable than the price or yield available in the market when the

securities delivery takes place, or that failure of a party to a transaction to consummate the trade may result in a loss to MDSIS or missing an opportunity to obtain a price considered advantageous.

For a more detailed discussion of the risks associated with an investment in the Bond Fund, please see the Bond Fund's prospectus and statement of additional information.

## **Disciplinary Information**

MDSIS and its subsidiary, MTL Management, LLC were defendants in a civil litigation, brought by competitors in the U.S. District Court for the Northern District of Illinois, whereby the plaintiffs alleged that these and other defendants improperly bid at certain Cook County tax lien sales. On January 25, 2012, the District Court entered a judgment against the defendants, which was affirmed on appeal.

## **Other Financial Industry Activities and Affiliations**

**Registered Broker Dealer:** MDSIS is affiliated with M.D. Sass Securities, L.L.C. ("M.D. Sass Securities"), a registered broker-dealer, which may market interests or shares of New Heights. M.D. Sass Securities will receive compensation for marketing the interests or shares that may include a portion of the management and performance fees/allocation received by MDSIS (please see "Client Referrals and Other Compensation" below).

Certain management persons of MDSIS are registered representatives of M.D. Sass Securities.

**Registered Investment Advisers:** The following M.D. Sass entities are related persons of MDSIS and are registered investment advisers:

M.D. Sass Associates, Inc. ("Associates")

M.D. Sass, LLC ("MDS")

M.D. Sass-Macquarie Financial Strategies Management Company, LLC ("Sass-Macquarie")

**Other Investment Advisers:** The following entity is a related person of MDSIS and is an unregistered investment adviser:

Taurus Funds Management Pty Limited ("Taurus")

MDSIS has entered into services agreements (the "Services Agreements") with Associates, Sass-Macquarie, MDS, and Taurus whereby MDSIS provides Associates, Sass-Macquarie, MDS, and Taurus with personnel, office space, supplies and office support services as needed by Associates, Sass-Macquarie, MDS, and Taurus. Such services will be provided for a compensation, payable monthly, equal to the cost of the services provided which generally will be calculated (i) as a prorated portion of rent plus taxes, utilities and services for office space, (ii) as a prorated portion of overall compensation including benefits for personnel, and (iii) in good faith, in the reasonable judgment of MDSIS, for other services not otherwise readily calculable.

Certain investment advisers named above manage partnerships, limited liability companies, separately managed accounts and other investment vehicles in which investors of Funds and separately managed account clients of MDSIS may invest. Other than the Services Agreements, MDSIS does not have any direct arrangements with the other MDSIS related persons which manage such partnerships, limited liability companies, separately managed accounts and other investment vehicles, but the entities all have common control.

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

MDSIS has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”), which is predicated on the principle that MDSIS owes a fiduciary duty to its Clients. Accordingly, employees of MDSIS must disclose or avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of Clients. Therefore, MDSIS endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity. Among other things, the Code requires MDSIS and its employees to act in Clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. MDSIS’s Code of Ethics is available for review and will be provided to any investor or prospective investor upon request by calling us at 212-730-2000.

MDSIS is part of a group of affiliated investment advisers. Certain of MDSIS’s officers and employees are also officers and employees of one or more of the investment advisers affiliated with MDSIS (the “Affiliated Advisers”), and certain of MDSIS’s investment professionals will provide investment advisory services to clients of the Affiliated Advisers. While MDSIS’s officers and employees will devote the time and services necessary for the conduct of MDSIS’s advisory business, these other business activities could, and are expected to, require a substantial amount of these persons’ time and effort.

The Affiliated Advisers may trade securities for their client accounts that are the same as, or similar to, securities MDSIS trades for its Clients. The Affiliated Advisers may take positions for their clients similar or opposite to positions taken by one or more of MDSIS’s Clients, and clients of the Affiliated Advisers and MDSIS’s Clients from time to time may be competing for similar positions in one or several markets. For purposes of seeking to maximize investment opportunities and achieve best execution in certain sector markets, MDSIS and the Affiliated Advisers may in some instances coordinate portfolio management and trading activities among their respective clients. MDSIS and its affiliates have instituted policies intended to ensure that, with respect to the allocation of investment opportunities and the execution of trades, all clients of MDSIS and the Affiliated Advisers are treated fairly and equitably over time.

MDSIS, Associates, and MDS may from time to time effect cross transactions among certain client accounts, including private investment companies, in which MDSIS and the other above-mentioned advisers act as general partners/investment advisers and in which certain principals may have investments. Such transactions must be consistent with the investment objectives and policies of each account and, in the view of each respective portfolio manager, must be in the

interest of each side of the transaction. Any such transaction will be conducted in accordance with applicable rules and regulations (including, if applicable, appropriate consent by the client).

MDSIS permits its principals and employees to invest for their own or related accounts in securities purchased for its Clients. In order to avoid possible conflicts with Clients' interests, the following guidelines are followed:

Any principal of MDSIS and its affiliates may execute orders through MDSIS's trading desk. In such cases, Clients' orders take precedence so that no trades by principals of MDSIS or its affiliates will be permitted if it is determined that such trades will disadvantage Clients' interests. If it is determined that such trades will not disadvantage Clients' interests, the securities of principals of MDSIS and its affiliates will be traded by the trading desk as part of any blocks traded for Clients. Where principals of MDSIS or its affiliates desire to seek brokerage services directly rather than through MDSIS's trading desk, no trades for their account are to be made until all Clients have been satisfied.

Principals and employees of MDSIS will not act for their own or related accounts in anticipation of a research report or purchase or sell recommendation for Clients' accounts or otherwise on the basis of material non-public information. All transactions by principals or employees are required to be reported to MDSIS's compliance department on a periodic basis.

Notwithstanding the above, certain principals and employees are participants in MDSIS's profit sharing plan and/or limited partners or members of private investment partnerships or limited liability companies of which MDSIS or affiliates of MDSIS are general partners or managing members (collectively, "Sass Entities"). Sass Entities pursue a broad variety of investment strategies and practices in seeking capital appreciation, including, in some instances, active short-term trading. On occasion, Sass Entities may own shares of the same companies owned by other Client accounts, and in the course of actively trading positions in such companies may purchase or sell securities at the same time as or at different times than other Client accounts based on separate investment decisions made for each account in light of its particular investment objectives and risk/return characteristics, provided that no transaction on behalf of a Sass Entity will be permitted if it is determined that it will disadvantage the interests of other Clients.

## **Brokerage Practices**

### **Selection of Brokers**

MDSIS considers various factors in selecting brokers through which orders for Client accounts are executed. MDSIS's primary consideration is the broker's ability to provide best execution of the trade (including both trade price and commission). Assuming equal execution capabilities, MDSIS also takes other factors into account.

In determining which brokers provide best execution, MDSIS looks primarily to the stock price quoted by the broker through which it can obtain the most favorable price. If the same price is available from more than one broker, MDSIS's judgment as to the following factors may influence the selection of a broker for a particular trade: the execution, clearance and settlement capabilities of the brokers under consideration; the nature of the security being traded; the size of

the transaction; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality; the financial stability of the brokers under consideration; actual or apparent operational problems of any broker under consideration; and the negotiated commission rates available at the time of the trade.

MDSIS also considers the nature and extent of research services provided when it selects brokers. Assuming equal execution capabilities as described above, MDSIS may direct commission business to brokers who provide research services. Such services include, but are not limited to: analyses and reports concerning economic factors and trends, industries, specific securities, portfolio strategy, and valuation and performance of accounts; advice regarding critical factors supporting research recommendations and special reports or information based on the specific requests of MDSIS's portfolio managers/analysts. MDSIS expects that research services received will generally (but not necessarily always) fall within the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934.

Subject to MDSIS's duties to seek best execution, MDSIS may also from time to time obtain research services prepared by third parties and provided by brokers in exchange for a predetermined amount of commission business. These services include portfolio monitoring, analysis and performance measurement systems, various economic forecasting and research services covering stocks and bonds, research and trading conferences, and a source of information as to block trading opportunities. Such third-party arrangements are cancellable at any time while others require notice. Such third-party arrangements do not involve a substantial amount of MDSIS's commission business on behalf of Clients.

Where, in MDSIS's judgment, several firms have equal execution capability, MDSIS from time to time places orders with brokerage firms which have recommended that MDSIS be among a number of investment managers invited to make presentations and proposals to manage potential Clients' assets. These are brokerage firms that provide MDSIS with high-quality execution services and with which MDSIS would place executions irrespective of the recommendations to potential Clients.

Also, some Clients designate the broker through whom some or all orders for their account are to be executed. Generally, in the case of trades directed to a particular broker, commission arrangements are negotiated in advance by the Client and the broker. Clients who direct MDSIS to use a particular broker-dealer should be aware that, in so doing, MDSIS may not be in a position to freely negotiate commission rates or spreads, obtain volume discounts on aggregated orders, or to select broker-dealers on the basis of best price and execution. As a result, directed brokerage transactions may result in higher commissions, greater spreads or less favorable execution on some transactions than would be the case if MDSIS were free to choose the broker-dealer.

Orders placed on behalf of Clients may be "bunched" for execution with the orders of other Clients of MDSIS or of MDSIS, its principals or other affiliates. Bunched orders may be executed in block transactions or in a series of transactions throughout a trading day. In the latter case, all participants in such transactions will receive the average price obtained during one trading day. These practices may result in the obtaining of a better average trade price and lower

transaction costs than might otherwise be available to certain Clients without such bunching, although the average price may be slightly higher than the lowest price in the series of executions that result in the average price. MDSIS will not aggregate orders unless aggregation is consistent with our duty to obtain best execution and the terms of the investment guidelines and restrictions of each Client for which trades are being aggregated.

Generally, MDSIS places and executes aggregated (i.e., bunched) equity order transactions at each of the trading “desks” of independent brokerage firms used by MDSIS. Aggregated trades are carried out one trade desk at a time. For each trading desk used, all participants in such transactions will receive the average price obtained during one trading day. Execution prices for equity orders will likely vary by trading desk as a result of the timing of an order’s placement and execution.

Since MDSIS directs client orders with the trading desks of several different brokers, some of which may be directed brokers, MDSIS has adopted a trading practice of rotating the order of executions on a daily basis using a “trade order randomizer.” This program randomly generates a trade order for all accounts, including directed accounts, non-directed accounts, and model portfolio accounts. The program will be run each trading day prior to market open and generate a random trade order of all accounts. All trades executed on that day will be executed in accordance with the list generated for that day. A new list is generated the next trading day and so forth.

The only exceptions to this practice include IPO allocations and trades executed away from the directed broker. IPO allocations will be executed through the offering’s respective broker and subsequently allocated on a pro-rata basis. Transactions that are “traded-away” from a directed broker will share in the allocation with the executing broker and be allocated on a pro-rata basis across all of the accounts that were traded away for that particular transaction.

It is MDSIS’s policy that investment opportunities are allocated fairly and equitably among Clients’ accounts. MDSIS’s general policy is to make investment allocations pro rata across Client accounts. Notwithstanding the foregoing, because of the diversity of objectives, risk tolerances, fund or account investor-imposed limitations, tax situations, differences in the timing of capital contributions and withdrawals among various Clients, the type of investment strategy, and other factors considered relevant by MDSIS, there may often be differences among Clients in the weighting and cost basis of particular positions and in the particular securities and other-instruments held.

Examples of permissible reasons why *pari passu* allocations or average price may not occur in every situation may include, but are not limited to, the following:

- Differences in Clients’ or investment fund investors’ tax situations;
- Differences in available capital;
- Different risk parameters, investment guidelines or specific instructions from a particular Client;
- Differences in investment programs’ emphasis on particular types of investments;
- Commission costs of allocating limited purchases or sales among several Clients;
- The limited size of an available position;

- The varying ability to margin, and any applicable margin limitations, for particular Clients;
- Liquidity requirements of a particular Client;
- The domicile of a particular Client, and the ability to participate in particular positions and securities based on such domicile;
- Issuer based restrictions with respect to a particular Client; and
- The type of investment strategy.

On occasion, MDSIS may participate in initial public offerings or new issues (sometimes referred to as “IPOs” or “new issue offerings”) for its eligible Clients’ accounts. Registrant does not consider Clients of RVE as IPO eligible Clients based on RVE’s investment methodologies. Pooled investment vehicles advised by MDSIS which transact in equities are considered eligible Clients. Only “non-restricted” investors of the eligible Clients are allowed to participate in IPOs. In these cases, MDSIS’s general policy and practice is to allocate shares fairly and equitably among eligible Clients’ accounts according to a specific and consistent basis so as not to favor or disfavor any eligible Client, or group of Clients, over another.

In seeking best execution for transactions on behalf of Clients, MDSIS from time to time may instruct the broker-dealer that executes the transaction to allocate or “step-out” a portion of such transaction to another broker-dealer. The broker-dealer to which MDSIS has “stepped out” would then settle and complete the designated portion of the transaction and the executing broker-dealer would settle and complete the remaining portion of the transaction that has not been “stepped out.” Each broker-dealer would receive a commission or a brokerage fee with respect to that portion of the transaction that it settles and completes. Generally speaking, MDSIS’s goal in conducting a “step-out” trade is to use a broker that will provide best price and execution and also give commission business to brokers with whom it has other arrangements that need to be paid for but whose execution capability is not as good.

### **Determination of Commission Rates**

In accordance with industry practice, commission rates are normally determined through negotiations with brokers conducted by MDSIS’s traders. These negotiations take into account industry norms for particular transactions, the size and type of trades, the size and expertise of the brokerage firm involved and the nature of brokerage and research services provided, including special services in connection with a particular trade. Such special services could include, among other things, the assumption of market risk in connection with a trade or series of trades or the facilitation of trades in a thin or volatile market. Although MDSIS generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Commission rates paid by MDSIS may in some situations be higher than those charged by other brokers for execution of similar trades without the provision of research and/or special services, which may justify higher commissions and equivalents than would be the case for more routine services.

### **Evaluation of Research; Soft Dollars**

Often no precise monetary value can be assigned to research and special execution services furnished to MDSIS by brokers. MDSIS reviews all research services and determines that the amounts of commissions directed to brokers are reasonable in relation to the value of the brokerage and research services provided, viewed in terms of both particular transactions and MDSIS's overall responsibilities with respect to the accounts over which it exercises investment discretion. MDSIS maintains an internal allocation procedure to identify those brokers who provide it with research services and the amount of research services they provide, and then endeavors, subject to MDSIS's duty to seek best execution, to direct sufficient commissions to them to ensure the continued receipt of such services as MDSIS believes to be valuable.

MDSIS may, from time to time, affect fixed income or other securities transactions with certain institutions for soft dollar credits on an agency basis, instead of effecting such transactions on a principal basis with market makers. In connection with transactions that are effected in this manner, a commission will be charged by the executing broker in addition to a mark-up or mark-down, which is included in the market maker's bid or ask prices of the securities being purchased or sold. When using soft dollar credits on an agency basis with certain brokers to obtain research or other products or services, MDSIS receives a benefit because it does not have to produce or pay for such research, products or services. This benefit may create an incentive to MDSIS to select a broker based on MDSIS's interest in receiving research or other products or services, rather than its Clients' interests in receiving most favorable execution.

Research services furnished by brokers are generally used in servicing all of MDSIS's accounts, although not all such services may be used in connection with any particular account that paid commissions to the brokers providing such services. Research services may be shared among MDSIS and its Affiliated Advisers. Therefore, research services that primarily benefit MDSIS and/or an Affiliated Adviser may be paid for with commissions generated by any of the other affiliates.

### **Allocations**

MDSIS advises multiple and diverse Clients and investors, which may compete for MDSIS's time and attention and for limited investment opportunities. MDSIS has a fiduciary obligation to use its best efforts to ensure that no Client is treated unfairly in relation to any other Client in the allocation of securities or investment opportunities or in the order in which transactions are executed. MDSIS will seek to allocate orders and investment opportunities among Clients in a manner that it believes is equitable and in the best interests of all of its Clients. Although such allocations may be pro rata among participating Clients, they will not necessarily be so, where MDSIS's allocation policies (e.g., taking into account differing objectives or other considerations) dictate a different result. There can be no assurance that a particular order or investment opportunity will be allocated in a particular manner or that it will be practicable for each account to participate in every transaction or position that is suitable for its objectives and strategy.

### **Review of Accounts**

Senior officers of MDSIS periodically monitor all portfolios for compliance with investment guidelines, positioning with respect to target portfolio structure, investment performance and adherence to investment objectives. Certain reviews can be daily and are done by the senior



officer and/or senior portfolio manager (and/or designees). Effective March 1, 2013, SEI Global Services, Inc. (“SEI”) assumed responsibility for trade settlement, investment accounting, reconciliation, mandatory corporate action processing, pricing, performance measurement and production of client reports for MDSIS portfolios. SEI staff reconciles positions, cash balances and transactions with custody statements daily (for portfolios whose custodians make such information available to SEI electronically) and positions (including cash balances) monthly for portfolios whose custodians do not make information available to SEI on a daily basis. SEI staff also prepares monthly and/or quarterly Client reports for separately managed accounts, which are reviewed by another SEI team member as well as someone within MDSIS before being provided to the Client service area for distribution to Clients.

The Chairman and CEO, President, Senior Managing Director and several portfolio managers (with the title of Senior Vice President) review the performance of the investment strategies they are responsible for on a regular basis (not less than monthly).

Clients with separately managed accounts receive reports not less than quarterly, and some monthly. Reports on separately managed accounts may include returns (in dollars and percentages), comparison of performance to a benchmark, details of portfolio holdings, information on portfolio transactions and other data as requested. Investors in the Funds also receive annual tax information necessary for their tax returns. New Heights investors generally receive reports monthly, and Bond Fund investors receive reports annually and semi-annually. Reports generally include a review of results and investment performance. Audited financial statements prepared in accordance with general accepted accounting principles are provided annually to Fund investors.

## **Client Referrals and Other Compensation**

On a discretionary basis, MDSIS may compensate certain employees for Client referrals. Additionally, MDSIS may from time to time compensate third parties for Client referrals pursuant to written solicitation agreements complying with the provisions of Rule 206(4)-3 under the Advisers Act.

MDSIS is affiliated with M.D. Sass Securities, a registered broker-dealer, which may market interests and shares of New Heights. M.D. Sass Securities will receive compensation for marketing the interests or shares that may include a portion of the management and performance fees/allocations received by MDSIS and/or an affiliate.

## **Custody**

Client assets generally are held in custody by unaffiliated broker/dealers or banks. In accordance with the Custody Rule, all client funds and securities are maintained with “qualified custodians”, which include banks and registered broker-dealers. Clients will receive account statements at least quarterly from these custodians. These statements should be carefully reviewed and compared to quarterly statements delivered by MDSIS.

MDSIS has access to some Client accounts since it or an affiliate serves as the general partner or managing member of each Fund. Fund investors will not receive statements from the custodian. Instead the Funds are subject to an annual audit and the audited financial statements are

distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days (180 days in the case of fund of funds) of each Fund's fiscal year end.

## **Investment Discretion**

MDSIS generally has discretionary authority to determine, without obtaining specific consent from the Funds or their investors, the securities and amount to be bought or sold. Any limitations on authority are included in the respective Fund's confidential offering memorandum, prospectus and other governing documents. MDSIS may generally exercise its investment discretion and authority conditionally or unconditionally, arbitrarily, or inconsistently in varying or similar circumstances. For example, MDSIS may provide certain investors or third parties representing investors more frequent or more detailed reports of a Fund's portfolio holdings or performance, special fee and allocation arrangements and special withdrawal rights that it does not provide to other investors.

Clients other than the Funds have (or may in the future) placed different limits on MDSIS's discretionary authority to invest pursuant to their respective investment management agreements with MDSIS.

## **Voting Client Securities**

To the extent MDSIS exercises or is deemed to be exercising voting authority over Client securities, MDSIS's general policy is to vote proxy proposals, amendments consents or resolutions (collectively "proxies") in a manner that serves the best interest of a Client, as determined by MDSIS, in its discretion, taking into account factors described in its proxy voting policies and procedures (together, the "Policy").

In furtherance of the foregoing, MDSIS generally opposes placing restrictions on the business judgment of management. MDSIS considers, on a case-by-case basis, executive compensation plans and supports those that promote the adoption of fair, competitive compensation packages for executives and it reviews matters relating to changes in a company's charter documents and generally votes in favor of those measures that provide management with the most operational flexibility. MDSIS follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of its Clients. If it is determined that any such conflict or potential conflict is not material, MDSIS may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, appropriate personnel of MDSIS will work to agree upon a method to resolve such conflict before voting proxies affected by the conflict. The Policy itself contains other more specific policies (including appropriate exceptions) that MDSIS intends to follow with respect to both routine and non-routine matters.

Some Clients do not allow MDSIS to vote proxies for them. Such Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. In the event Clients have questions about a particular solicitation, they may contact us at 212-730-2000.

The foregoing summary of MDSIS's Policy is qualified in its entirety by the complete text of the Policy, a copy of which may be requested along with MDSIS's proxy voting record by contacting us at 212-730-2000.

MDSIS does not take any action with respect to class action lawsuits in which a separately managed client account may be eligible to participate. Notifications for such events are normally processed through each applicable account's custodian and will be handled directly by the accountholder. If MDSIS should inadvertently receive information related to a class action lawsuit for a security held in a separately managed client account, then MDSIS will endeavor to forward the relevant information to the applicable accountholder.

Class action participation involving securities held by any mutual fund will be handled by the mutual fund (and not by MDSIS).

With respect to New Heights, MDSIS has engaged a third-party service provider to assist in identifying and processing class action litigation opportunities. The third-party service provider is compensated on a contingency basis whereby it will receive a percent of any recovery obtained. New Heights will bear the cost (i.e. receive a reduced amount of any class action settlement), if the third-party is utilized for its class action recovery services. MDSIS will credit any class action settlement received for New Heights to all applicable limited partners at the time of receipt.

## **Financial Information**

MDSIS has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to affect its ability to manage Client accounts.