

# Form ADV–Part 2A–Brochure Martingale Asset Management, L.P.

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This Brochure provides information about the qualifications and business practices of Martingale Asset Management, L.P. If you have any questions about the contents of this Brochure, please contact us at 617.424.4700 or [information@martingale.com](mailto:information@martingale.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Martingale Asset Management, L.P. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Martingale Asset Management, L.P. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

The following summarizes new or revised disclosures based on information previously provided in our Firm Brochure dated August 22, 2013.

*Item 4. Advisory Business* reflects the amount of client assets managed by our firm as of December 31, 2013. *Item 5. Fees and Compensation* was revised to disclose that Martingale lowered its management fee for several U.S. Large Cap Equity strategies, effective January 1, 2014. In addition, Martingale terminated the LargeCap Value 200 strategy effective November 30, 2013. Under the sub-heading of Consulting Fees, Martingale clarifies that there are no plans to market such services. *Item 8. Methods of Analysis and Investment Strategies* includes information on the Martingale Academic Advisory Board.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. To request a current copy, contact Patricia J. O'Connor, Chief Administrative Officer, at 617.424.4700 or [patricia.oconnor@martingale.com](mailto:patricia.oconnor@martingale.com).

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#### Item 4 – Advisory Business

Founded in 1987, Martingale Asset Management, L.P. (“Martingale”) is an equity specialist. Martingale is an independent, privately held investment adviser principally owned by its employees. Martingale Asset Management Corporation is the General Partner to the limited partnership and is wholly owned by three of the firm’s founders. Martingale Asset Management Corporation owns more than 25% of Martingale Asset Management, L.P.

Hallmarks of our firm include fundamental research, systematic stock selection, disciplined portfolio construction, efficient trading practices and close working relationships with our clients. We manage long-only equity portfolios as well as 130/30, low volatility and long/short portfolios. Martingale is focused on equity management, combining strategic investment thinking with quantitative tools to manage our clients’ assets. This approach allows us to operate with one investment team of professionals to manage all portfolios across all products. As of 12/31/2013, Martingale’s total firm assets under management were \$2,914,159,404. All assets under management are discretionary.

Martingale invests primarily in equity securities; in some circumstances, we also invest in other types of securities. In seeking to remain fully invested in equities at all times, Martingale may invest in derivatives, such as stock index futures, options on stock indexes and similar instruments. The major risks of derivatives, which can change dramatically in value, are market risk, credit risk, liquidity risk, settlement risk, legal risk, and operational risk. Clients are encouraged to contact Martingale for more information about Martingale’s use of derivatives. Clients may also restrict the use of derivatives for their accounts.

Martingale is not registered with the Commodities Futures Trading Commission and the National Futures Association (“NFA”) as a commodities trading adviser. Martingale has filed a Notice of Exemption pursuant to 17 C.F.R. Section 4.14 (a)(8) with the CFTC and NFA by which Martingale represented that it is exempt from registration as a commodities trading adviser. Martingale’s exemption is due to its commodities interest trading advice being directed only to certain qualified clients, and such advice is solely incidental to its business of providing securities advice. Lastly, Martingale does not hold itself out as a commodities trading adviser.

Martingale offers investment advisory and supervisory services to separately managed accounts and to a private pooled investment fund, the Martingale Investment Trust. Martingale Investment Trust is a Delaware statutory trust established for the purpose of providing qualified investors with an opportunity to invest in one or more series of publicly traded equity securities. Interests in the Trusts are offered in one or more series (each a “Series”), which may be offered from time to time. Each Series will consist of a different equity portfolio and will pursue unique investment objectives and strategies. Prior to making any investment in the Trust, qualified, prospective investors should carefully review the offering documents of the Trust for a comprehensive understanding of its terms and conditions. This information is intended merely as a brief summary and is provided for discussion purposes only. It does not constitute an offer, agreement or binding commitment by anyone.

In addition, Martingale acts as sub-adviser to registered investment companies, *wrap programs* and other investment advisers. Our investment advisory services do not differ from those provided to separately managed account clients. We employ the same investment process in managing these assets; note however, as is common in wrap programs, Martingale does not handle trade execution duties.

In most cases, Martingale holds limited powers of attorney to act on a discretionary basis with client funds. A client's funds are deposited in either a brokerage firm account that is not affiliated with Martingale or an account with a custodian bank selected by the client.

Martingale also provides advisory services to an unaffiliated, foreign based asset management firm. In this arrangement, Martingale either provides a model portfolio of recommended positions, reviews portfolio holdings, or provides theoretical and technical advice for the investment process and model whenever deemed appropriate by Martingale or is reasonably requested by the client. The client, in turn, exercises investment discretion, executes transactions and provides related services to the end investor/clients. Martingale earns a consulting fee for providing these services.

At the request of clients, we can tailor our investment management services to meet individual requirements or needs. Examples include benchmark selection, estimated risk target, and stock universe selection. Further, clients may impose specific stock or types of stocks restrictions as warranted and agreed upon between Martingale and the client.

## Item 5 – Fees and Compensation

Investment advisory fee revenues are Martingale's only source of compensation. We do not engage in soft dollar trading, and we do not receive or pay referral fees to any third parties.

The specific manner in which Martingale charges its fees is established in a client's written agreement with Martingale. Fees are calculated as a percentage of the value of assets under management, and they are billed on a quarterly basis. In some cases fees are charged at the beginning of each quarter while in other cases, they are charged at the end of a quarter. Timing is based on agreeable terms between Martingale and the client. In most cases, Martingale bills clients directly for management fees. In certain cases, the client or a client's designated agent will calculate the management fee and remit payment to Martingale. We will not instruct a client's custodian to deduct our fee directly from a client's assets. Martingale's fee schedule, presented below, is negotiable.

### Separate Account Management

U.S. Large Cap Equities		Fee	Minimum
LargeCap Core	LargeCap Value	0.50% of first \$25 million	\$25 million
LargeCap Core 500	LargeCap Value 500	0.30% thereafter	
LargeCap Core 200	LargeCap Growth		
Unconstrained Equity	LargeCap Defensive		
Low Volatility LargeCap+	LargeCap Dynamic		
Low Volatility LargeCap	LargeCap Enhanced Defensive Index	0.40% on first \$25 million 0.25% thereafter	\$25 million
U.S. Small and Mid Cap Equities			
MidCap Core		0.70% of all assets	\$25 million
SmallCap Core	Low Volatility SmallCap+	1.00% of all assets	\$25 million
SmallCap Value			

U.S. 130/30 Equities		Fee	Minimum
130/30 LargeCap Core 500	130/30 LargeCap Value	0.75% of all assets	\$50 million
Low Volatility 130/30 LargeCap+	130/30 LargeCap Growth		
U.S. Long/Short Equities			
Equity Market Neutral		1.00% of net invested capital Plus 20% of profits	\$25 million
Low Volatility Beta Arbitrage		1.00% of net invested capital Plus 20% of profits	\$50 million
Global Equities			
Low Volatility All Country World		0.75% of all assets	\$50 million
Low Volatility International-EAFE			
Low Volatility International-ACWI ex-U.S.			

Note: Tax aware portfolio management is available in all U.S. strategies for an additional fee of 0.20% on the first \$25 million.

### Pooled Investment Vehicles

U.S. Equities	Fee	Minimum
<b>Martingale Investment Trust</b>		
Series 1–U.S. Low Volatility LargeCap+	0.40% of first \$25 million 0.30% thereafter	\$5 million

### Consulting Fees

This service is no longer offered by Martingale, other than to clients that have previously engaged Martingale for the service. Such clients will continue to pay fees in accordance with the fee schedule contained in their Investment Advisory Agreement.

Martingale will continue to provide this service to those clients that have contracted with the firm for such services in accordance with the terms and conditions set forth in the Investment Advisory Agreement.

Client requested, customized portfolio management will have a fee schedule commensurate with the strategy. Generally, contracts with clients may be cancelled at any time upon written notice by either party. Any management fee accrued through the date of termination, is charged to the clients. All prepaid but unearned advisory fees are refunded to the client.

Martingale's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to our fee, and Martingale shall not receive any portion of these commissions, fees, and costs.

**Limited Negotiability of Advisory Fees** Although Martingale has established the aforementioned fee schedule, it retains the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, portfolio style, reporting needs and other factors. The specific annual fee schedule will be identified in the contract between Martingale and each client.

Martingale also provides investment advisory and supervisory services to clients as part of *wrap programs* in conjunction with third-party sponsors (“Sponsors”). Under these arrangements, Martingale does not receive any fees directly from these clients. Instead, each Sponsor pays a management fee to Martingale Asset Management, L.P. for investment advisory and supervisory services. This fee is typically equal to a predetermined percentage of the aggregate amount of assets managed by Martingale for a client referred by the Sponsor. When participating in a *wrap program*, Martingale Asset Management, L.P. is selected to provide advisory services to a client by the Sponsor or the client.

**Short Term Idle Cash Investment** Cash not otherwise invested by Martingale will be invested by the client’s custodian and can generate an interest return (income) for the client. If the cash is invested through a commingled or mutual fund administered through the custodian, then an affiliate of the custodian will normally handle managing the fund. A portion of the interest earned will be allocated for payment of the fund’s separate management fee. Martingale is not affiliated with any such custodian, does not share in that fee, does not participate in such investment decisions and is not liable with regard to such investments. Any fees, charges, etc. are exclusive of and in addition to Martingale’s management fees.

Item 12 describes the factors that Martingale considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

## Item 6 – Performance-Based Fees and Side-By-Side Management

In some cases, Martingale has entered into performance fee arrangements with qualified clients: such fees are subject to individual negotiation with each qualified client. Martingale will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (The Advisers Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. Performance-based fee arrangements may create an incentive for Martingale to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Martingale designed and implements procedures to effect fair and equal treatment of all clients and to prevent a conflict from influencing the allocation of investment opportunities among clients; it is not our intention to place any client at a disadvantage. As applicable, clients who elect to terminate their contracts with Martingale will be charged a pro-rated performance-based fee based on the account’s performance for the measuring period that encompasses the time from the date on which the performance-based fee was last assessed through termination date.

## Item 7 – Types of Clients

Martingale Asset Management, L.P. provides investment advisory services to individuals (through *wrap programs* where we act as investment adviser only), high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, educational institutions, municipalities, registered mutual funds, private investment funds, and other U.S. and international institutions.

As noted in Item 4, Martingale also provides investment advice to a Delaware statutory trust. None of the Series or the Trust will be registered under the Investment Company Act of 1940, as amended (the “1940 Act”) in reliance upon certain exemptions available to issuers whose securities are not publicly offered. The Trust is

organized for “accredited investors” as defined by the Securities Act of 1933; “qualified eligible participants” as defined under the Commodity Exchange Act; or investors who are “qualified purchasers” as defined under the 1940 Act. Potential investors in the Trust should refer to the private offering documents regarding the types of investments that may be utilized in managing the Trust’s assets as well as the associated risks.

There is a minimum required investment of U.S. \$5,000,000, subject to Martingale’s discretion, for the Martingale Investment Trust. Any Trust offering will be made only pursuant to a confidential offering memorandum and the relevant subscription application, each of which must be read in entirety. Martingale, in its sole discretion, may decline to accept the subscription for investment by any prospective investor.

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

Experience, insight and research combined with consistent and dispassionate quantitative analysis of company fundamentals are at the heart of our investment models. We apply our insights regarding market, economic, industry, company fundamentals and risk to calculate intrinsic values for more than 3,000 stocks. Comparing those values with current stock market prices, we identify bargains to buy and overpriced stocks to avoid, sell or sell short.

We do not waver in adherence to our investment beliefs but we understand that the world is not a static place; only by being creative and diligent can we continue to identify and capture good value. Since value and price reflect changing company fundamentals and shifting investor preferences, opportunity is a moving target. New ideas are analyzed, tested, and tested again, and, if appropriate, added to our investment process. While our models are continuously monitored and refined from time to time, our basic investment philosophy has never changed.

We rank thousands of stocks, overweight the most attractive and underweight (or sell short) the least attractive. We control market capitalization and industry exposures to reflect client benchmarks and we limit the investment in individual securities to ensure that portfolios are well diversified. Risk control is also one of our hallmarks. For benchmark-aware strategies, we focus on tracking error; in other strategies, we focus on total risk. We believe that identifying undervalued and overvalued stocks is a more reliable path to extra return than market timing and, consequently, we hold a minimum amount of cash. We routinely sell stocks that performed well, became fundamentally less attractive, or became more risky, and we replace them with stocks that have either more upside potential or more favorable diversification characteristics. This insight-driven portfolio turnover leads to an average holding period of about one year.

For some clients, we apply long/short investing to more intensively exploit spreads and reduce risk. Martingale was one of the earliest advocates for the institutional use of long/short portfolios. Rather than ignore overvalued stocks, Martingale sees them as another profit opportunity. Long/short investing is a portfolio construction technique, not a strategy. With carefully combined long and short stock positions, we can more fully exploit valuation spreads while managing stock market and industry risks.

Martingale’s investment team researches the innovations and insights that drive our strategies. Ideas for enhancing our investment processes are evaluated and discussed at length among investment team members. In 2010, Martingale formed an Academic Advisory Board to provide additional access to current academic research and thinking about the investment management industry and to complement our internal investment research. The Board includes leading academic scholars: Andrew Ang (Columbia), Robin Greenwood (Harvard)



and Luis Viceira (Harvard). Members of the Board receive an annual honorarium for serving on the Board. Board members may also perform specific research projects at Martingale’s request for which they are compensated. In addition to his Board membership, Robin Greenwood has a separate consulting contract with Martingale which broadens his involvement: he provides additional intellectual perspective on Martingale’s research initiatives and is a regular attendee at Martingale’s research meetings. On occasion, Mr. Greenwood is invited to attend meetings with a client or prospective client of Martingale.

All of Martingale’s investment strategies begin with one investment philosophy that is grounded in behavioral finance and the belief investor biases cause markets to be inefficient. Martingale employs a systematic, risk controlled approach to exploit these inefficiencies. Martingale manages equity investment strategies employing two distinct approaches. One approach focuses on evaluating a fundamental alpha and the other approach focuses on minimizing risk through reducing portfolio volatility.

In our ***fundamental alpha strategies***, our research has determined that company fundamentals are predictive of future stock returns. Stocks with strong returns tend to exhibit common traits months, or even years, prior to their outperformance. Conversely, stocks that underperform tend to rate poorly on these characteristics in advance of their bad performance. These are quantifiable, measurable and exploitable characteristics. Martingale uses a systematic, bottom-up stock valuation process to evaluate thousands of companies and assess their future return potential. This fundamentally based, quantitative analysis of investment characteristics forms the core of Martingale’s investment process for fundamental alpha strategies. These fundamental strategies are:

#### **Fundamental Alpha Strategies**

LargeCap Core	LargeCap Value	LargeCap Defensive
LargeCap Core 500	LargeCap Value 500	LargeCap Dynamic
LargeCap Core 200	LargeCap Growth	Unconstrained Equity
MidCap Core	SmallCap Value	Equity Market Neutral
SmallCap Core	130/30 LargeCap Value	
130/30 LargeCap Core 500	130/30 LargeCap Growth	

In our ***low volatility alpha strategies***, Martingale takes advantage of a critical mass of research which strongly suggests that high risk stocks perform worse than financial theory suggests while low risk stocks perform better than theory would suggest. Given these results, a portfolio that emphasizes low risk stocks and avoids high risk stocks can have a more favorable Sharpe ratio (return per unit of risk) than the market. Moreover, because lower risk stocks are less volatile, a portfolio emphasizing these stocks is likely to experience substantially less return variability than the market. Martingale’s low volatility alpha strategies seek equity market returns with lower volatility than the market by emphasizing lower risk stocks within a well-diversified portfolio. Martingale incorporates comprehensive, commonsense constraints to improve portfolio stability and minimize volatility, valuation and trading risks associated with more heavily concentrated approaches. Martingale’s proprietary process is intended to produce stable sector, industry and security diversification with low turnover. Also, another proprietary approach focusing on valuation tilts portfolios towards attractively valued stocks.

Martingale’s low volatility alpha strategies include:

### Low Volatility Alpha Strategies

Low Volatility LargeCap+	Low Volatility LargeCap
Low Volatility SmallCap+	Low Volatility Enhanced Defensive Index
Low Volatility 130/30 LargeCap+	Low Volatility Beta Arbitrage
Low Volatility All Country World	Low Volatility International-EAFE
	Low Volatility International-ACWI ex-U.S.

To preserve the value captured during stock selection and portfolio construction, Martingale takes into account the full impact of trading. Trading is always predicated on seeking to obtain best execution. Further, Martingale does not engage in soft dollar trading.

The implementation of Martingale’s investment strategies includes long-term and short-term purchases, short sales, and margin transactions. While it is very rare, we may employ option writing (including covered options, uncovered options or spreading strategies) as well as trading (e.g., securities sold within 30 days) which can effect investment performance, particularly through increased brokerage and other transaction costs.

Investment performance is not guaranteed. Investing in securities involves risk of loss of both income and principal that clients should be prepared to bear. An investment in stocks will fluctuate within a wide range and could lose money over short or even long periods. Particular market capitalization segments (e.g., small cap versus large cap) or style categories (e.g., growth versus value) might underperform or outperform the overall stock market. In addition, poor security selection by Martingale could cause your portfolio to underperform relevant benchmarks or other portfolios with similar investment objectives.

There is a risk of loss in managing client portfolios that is associated with our use of either third-party or internally generated data, computer algorithms, and risk/return forecasting models. In addition, Martingale’s approach of employing quantitative investment tools involves the use of our own databases and computer models. There can be no assurance that models and/or databases will operate correctly or as expected in all market conditions. In addition, strategies that incorporate short selling have inherent risks associated with utilizing a prime broker and employing short selling in the strategy. There is also a degree of leverage: borrowed stocks are sold short; short sale proceeds and long stocks become collateral. Long/short investing can be riskier than long-only investing, since both the long and short sides can simultaneously lose value. Further, our strategies that invest in foreign companies are exposed to exchange rate risk as well as liquidity and trading constraints which may also create other risk. Investing in non-U.S. securities has additional risks to consider. These disclosures of the various risks associated with an investment with Martingale are not, nor are they intended to be, a complete enumeration of the risks involved in an investment. Please contact Martingale if you would like more information about our products.

### 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 your evaluation of Martingale or the integrity of Martingale’s management.

Martingale Asset Management, L.P. has no information applicable to this Item.

## Item 10 – Other Financial Industry Activities and Affiliations

Martingale Asset Management, L.P. is the General Partner in the Martingale Investment Fund-2, Limited Partnership, which invests in equities. Currently it has one partner and is not available to external investors.

Martingale Asset Management, L.P. is the investment manager to the Martingale Investment Trust, a private pooled investment fund. It is offered to qualified investors.

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

Martingale’s Code of Ethics, (the “Code of Ethics”) covers all officers, directors, employees of or partners in Martingale who are involved in the advisory process (each an “Advisory Person”). Under the Code of Ethics, an Advisory Person includes members of an Advisory Person’s immediate family (living in the same household), accounts over which the Advisory Person has investment control or discretion, and accounts in which the Advisory Person (or member of such Advisory Person’s immediate family) has a beneficial ownership interest. Under this Code of Ethics, Advisory Persons are prohibited from trading in individual securities without the prior approval of certain named individuals. Further, Advisory Persons may not trade in securities that in the prior seven days were, simultaneously are, or in the following seven days will be purchased or sold for the account of an advisory client, subject to certain de minimis exceptions. Pursuant to the Code of Ethics, Advisory Persons are advised to trade through mutual and exchange-traded funds organized as open-end funds (other than those advised by Martingale Asset Management, L.P.).

Because certain securities may be bought, sold or held in client accounts that are also traded in Advisory Person’s accounts, these transactions are subject to the restrictions previously described.

Martingale may also buy, sell or hold securities in its own proprietary strategy incubator accounts that may also be traded in client accounts.

Advisory Persons must submit annual holdings and quarterly security transactions reports to Martingale. The Code of Ethics prohibits Advisory Persons from taking directorships (or other comparable positions) without prior approval, receiving gifts above a certain size from any person or entity that has a business relationship with Martingale, if the gift recipient is in a position to influence a business relationship for the benefit of the gift giver and accepting special favors as a result of their status as Advisory Persons. Advisory Persons who violate the Code of Ethics are subject to sanctions. All Advisory Persons must annually re-certify in writing their familiarity and compliance with the Code of Ethics.

Martingale will provide a copy of its Code of Ethics, as amended from time to time, to any advisory client or prospective advisory client upon receipt of a written request addressed to

Martingale Asset Management, L.P.  
Attn: Designated Compliance Officer  
222 Berkeley Street  
Boston, Massachusetts 02116

## Item 12 – Brokerage Practices

Martingale has discretion to select brokers or dealers to effect transactions for nearly all of our clients. Trade execution takes two forms: principal and agency trading. Principal—or *blind bid*—trades comprise the majority of our executions. All such trading is based on a fair and open competitive bidding process among qualified and interested brokers. Martingale distributes the characteristics—but not the names themselves—of the trade list to several pre-approved brokerage firms. Based on these characteristics, each firm submits to Martingale a price at which they agree to execute the trade list. When a broker executes a trade principally, it acquires the entire trade list from the investment manager by taking the other side. [Exception: some stocks may be excluded due to broker and/or industry restrictions.] The broker does this in exchange for a fee, known as a *bid premium*, which is built into the execution price. Generally, Martingale has found principal trading to be more cost effective on average than agency trading in executing equity trade lists. The auction aspect of the bidding process promotes cost effective execution. We also engage with brokers on an agency basis for a commission. Agency trades are typically awarded on the basis of brokers' past performance, as measured by our trade cost measurement algorithm. Martingale may use a broker on an agency basis, to buy or sell securities from or to market makers, in which case the client will pay a commission in addition to any markup or markdown the market maker receives.

In selecting brokers and dealers, Martingale's primary objective is to seek to obtain *best execution*. In evaluating a broker or dealer, net prices (after brokerage commissions or mark-ups and other transaction costs) are a principal factor, but selection can also take into account other factors. These include, for example:

- the execution, clearance and settlement capabilities of the broker or dealer generally and in connection with securities of the type involved;
- the broker's or dealer's reliability, integrity, and financial stability;
- the size of the particular transaction and its complexity in terms of execution and settlement;
- the importance of speed or confidentiality in the particular transaction; and the market for the security; and
- for principal trades, the broker's or dealer's ability and willingness to commit its capital to facilitate transactions (by participating for its own account on a principal basis) as well as a broker-dealer's ability to provide securities for short sales.

**Directed Brokerage** At a client's request, Martingale may accept client instructions for directing the client's brokerage transactions to a particular broker or dealer. Any direction by the client for use of a particular broker or dealer should include all of the terms and conditions of the directed-brokerage arrangement, procedures for monitoring such directed-brokerage arrangement as applicable, and representations and warranties that such direction is authorized by the client. In addition, we seek to obtain assurance that such direction is in compliance with the client's governing documents or under law. In the case of directed brokerage arrangement for commission recapture, it will solely benefit the client's account. Martingale will attempt to obtain acknowledgment from the client that in designating the use of a particular broker or dealer, the client loses (a) the possible advantage that non-designating clients derive from aggregation of orders for several clients as a single transaction, including volume discounts, (b) the possible advantage that non-designating clients derive from the Manager having the option of effecting transactions either (i) directly with market makers, brokers or dealers acting as principals on a net basis with no brokerage commissions, or (ii) by brokers or dealers on an agency basis for a commission, either of which may not be available from the

broker or dealer designated by the client. Also, as a result of selecting the directed broker, there may be a difference between the commissions paid by the account and commissions paid by other advisory clients of the firm (who have not directed brokerage) to a particular broker-dealer because Martingale may not be able to negotiate commissions as favorably with such brokers. Further, the loss of any of the foregoing, stemming from the client's designation of the broker or dealer, may result in Martingale being unable to obtain *best execution* in some or all of the transactions effected with the broker or dealer designated by the client.

Martingale does not engage in any soft dollar trading. Further, as a matter of policy, we do not engage in agency cross transactions or principal transactions involving our clients' accounts.

### Trading Overview

As an adviser and a fiduciary to our clients, our clients' interests must always be placed first and foremost. Martingale's trading practices and procedures prohibit unfair trading practices. We seek to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the client's favor. Martingale has adopted the following policies and practices to meet the firm's fiduciary responsibilities to effect trading practices that promote fairness to all clients so that no client or account is advantaged or disadvantaged over any other.

**Aggregation** The aggregation or blocking of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients. Therefore, our firm's policy is to aggregate client transactions where possible and when advantageous to clients. In these instances clients participating in any aggregated transactions will receive an average share price, and transaction costs are shared equally and on a pro-rata basis. In the event transactions for an adviser, its employees or principals (proprietary accounts) are aggregated with client transactions, if conflicts arise, special policies and procedures must be adopted to disclose and address these conflicts.

**Allocation** Martingale's policy prohibits any allocation of trades in a manner that Martingale's proprietary accounts, affiliated accounts, or any particular client(s) or group of clients receive more favorable treatment than other client accounts. Allocation of any partially completed order will be allocated on a pro-rata basis.

**IPOs** Martingale does not participate in any IPOs.

**Trade Errors** If it appears that a trade error has occurred, Martingale will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that a trade error occurs, Martingale's policy is to seek a resolution by which clients are treated fairly when correcting the error, and clients would be in a position that is no worse had it not occurred. In certain cases, a trade error will be processed through Martingale's Error Account. This transaction can produce a gain or a loss which Martingale will absorb.

### Item 13 – Review of Accounts

Martingale employs a sophisticated, technology-driven process to manage client portfolios. It is intended to ensure that portfolios are managed in accordance with the strategy's and client's investment guidelines. A systematic process is used to construct and rebalance client portfolios. By design, the process combines systematic data processing and analysis with human interaction and review. Martingale structures many layers of monitoring and oversight to maintain compliance with strategy and client guidelines:

- A portfolio manager performs a comprehensive review of an account as part of the rebalancing process to ensure the portfolio meets the appropriate client guidelines as well as investment strategy and firm-wide guidelines.
- A portfolio manager reviews and signs each portfolio optimization, including the trade list, before a trader submits the final trade. The trader signs the final trade list.
- A portfolio manager performs a review of portfolio monitoring reports every day and takes action as deemed necessary.
- A compliance officer reviews reports daily which monitor certain firm-wide criteria as well as certain client specific guidelines and restrictions.
- Each quarter our Chief Investment Officer and Chief Compliance Officer or other designated officer(s) perform a summary account review.

At account start-up, we confirm with the client the account's investment objectives and guidelines, establishing specific account characteristics for the portfolio. Our portfolio management systems are programmed with guideline information to monitor client and/or in-house investment policy guidelines. As a result, our portfolio decision-making is based upon events that fall within stated parameters, thus fostering compliance with guidelines.

A portfolio's strategy and client investment guidelines form the foundation for exercising investment discretion in managing client portfolios. In seeking to achieve a strategy's investment objectives decisions are made within the context of the investment guidelines. In the course of managing client portfolios, we conduct ongoing research, seeking to improve our investment models and other components of our investment advisory process. Because these enhancements are often proprietary in nature, they are not routinely disclosed in client communications. It is our practice to notify clients, as soon as practical, of any changes in investment strategy that would move the portfolio beyond the scope of the investment guidelines.

**Reporting** Separately managed account clients can receive finalized account reports each month. The reports typically include portfolio holdings with current prices and securities transactions, including purchases, sales, dividends, corporate actions, and cash flows. Current and historical performance data is typically included. Clients can receive a quarterly update which includes quarterly and inception-to-date performance results, a general investment strategy discussion and other items regarding specific portfolios. Separately managed account clients receive a monthly *flash report* which contains estimated account performance and brief commentary. Martingale's wrap clients can receive monthly or quarterly reports, which can include portfolio holdings and securities transactions, such as purchases, sales, dividends, corporate actions and cash flows directly from the wrap sponsor.

Clients invested in Martingale’s pooled investment fund receive account information from Martingale that has been prepared by a third party administrator. Martingale sends audited financial statements to participants each year.

### **Item 14 – Client Referrals and Other Compensation**

We do not compensate any party for client referrals, excluding employees of Martingale. We receive no compensation or economic benefit for providing investment advice other than management fees paid by our clients.

Martingale’s advisory services are marketed directly by employees. In certain circumstances these employees may be compensated based on an established schedule which is generally a percentage based on the account’s asset value at a point in time.

### **Item 15 – Custody**

Martingale does not take physical custody of client assets; we are not affiliated with any broker/dealers or custodians.

Clients invested in separately managed accounts select an agent to serve as custodian of their assets. This selection is unrelated to, and independent of, selecting Martingale to provide investment advisory services. Thus, it is customary for clients to receive periodic statements from their broker or dealer, bank or other qualified custodian that holds and maintains a client’s investment assets.

Martingale urges clients to review statements carefully and compare official custodial records to the account statements that we may provide them. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Clients invested in Martingale’s private pooled investment fund receive audited financial statements prepared by an independent service provider within 120 days of the fund’s calendar year end.

### **Item 16 – Investment Discretion**

Some clients elect to bestow investment discretion to Martingale. In these cases, at the outset of an advisory relationship, Martingale receives discretionary authority from the client through an executed investment advisory agreement. In all cases, however, the discretion to select the identity and amount of securities to be bought and sold for a client’s portfolio must be exercised in a manner consistent with the client’s and strategy’s investment guidelines.

When selecting securities and determining amounts, Martingale observes the investment policies, limitations and restrictions of the clients for which it advises. Similar to investment policy guidelines, adherence to ERISA regulations is also a primary concern at Martingale. In the course of normal business activity, Martingale does not engage in the type of transactions contemplated by the prohibited transaction provisions of ERISA other than those for which there is exemptive relief under ERISA. For registered investment companies, Martingale’s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Martingale in writing preferably as part of the executed investment advisory agreement.



## Item 17 – Voting Client Securities

When given authority to vote proxies, Martingale has responsibility for voting proxies for portfolio securities consistent with the best economic interests of clients. Our firm maintains written policies and procedures for handling, research, voting, and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practices include the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant, required records.

### Proxy Voting Overview

Martingale uses ISS Governance Services (ISS), an independent proxy voting service provider, to research, recommend and vote proxies. Martingale reserves the right, and has the ability, to change a vote recommended by ISS if the recommendation is determined not to be in the best interest of the client.

**Client Requests for Information** All client requests for information regarding proxy votes or requests for the firm's policies and procedures received by any employee should be forwarded to the Manager of Operations. In response to any request, except those associated with *wrap program* clients, the Manager of Operations will ensure that the client receives a written response with the information requested, and if applicable, will include the name of the issuer, the proposal voted upon, and how the client's proxy was voted with respect to each proposal about which the client inquired. If the request is from a *wrap program* client, the Wrap Account Administrator will process the request for information in the above described manner.

**Voting Guidelines** In the absence of specific voting guidelines from the client, Martingale will vote proxies in what we believe to be the best interests of the client. Martingale's policy is to vote all proxies from specific issues the same way for each client, absent client specific restrictions. Clients are permitted to place reasonable restrictions on Martingale's voting authority in the same manner that they may place such restrictions on the actual selection of account securities.

**Conflicts of Interest** Martingale recognizes that, under certain circumstances, a conflict may arise in voting proxies on behalf of clients. As is our policy, these proxies will be voted consistent with the recommendation of ISS, provided that Martingale believes that such a vote is consistent with the best interest of the clients. Martingale will maintain a record of the voting resolution of any conflict of interest. ISS has disclosed its policies, procedures and practices regarding its potential conflicts of interest. Each year, we check for any change in its policy.

**Class Actions** The Manager files proof of claim and release paperwork for class action settlements for accounts unless directed otherwise by the client.

**No Authority to Vote** In cases in which a client does not give Martingale authority to vote its proxies, clients may receive proxies or other solicitations directly from their custodian or transfer agent. Clients are free to contact Martingale for questions or information on a particular proxy.

## Item 18 – Financial Information

Registered investment advisers are required in this Item to provide our clients with certain financial information or disclosures about Martingale's financial condition. Martingale 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.