

Knightsbridge Asset Management, LLC

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Form ADV, Part 2A Brochure

March 8, 2013

This brochure provides information about the qualifications and business practices of Knightsbridge Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at 949.644.4444 or knightsbridge@knightsb.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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Knightsbridge Asset Management, LLC or any person associated with Knightsbridge Asset Management, LLC has achieved a certain level of skill or training.

Additional information about Knightsbridge Asset Management, LLC is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2 - MATERIAL CHANGES

Revised March 8, 2013

The purpose of this page is to inform you of any material changes since the last annual update to this brochure. If you are receiving this brochure for the first time, this section may not be relevant to you.

Knightsbridge Asset Management, LLC (“Knightsbridge”) reviews and updates the brochure at least annually to confirm that it remains current. Below is a summary of the material changes made since the last annual update to the brochure. This summary does not include all changes made to the brochure. You can read more details on the items below in the text of the brochure (see the Table of Contents to find each section). If you wish to receive a complete copy of our Form ADV Part 2A brochure, please send a written request to our office.

Material changes from Knightsbridge’s brochure dated January 25, 2012:

Item 4 – Assets Under Management

We have updated this item to reflect the current amount of our assets under management. As of December 31, 2012, the total amount of assets under our management was (in millions):

Discretionary Assets	\$507.1
<u>Non-Discretionary Assets</u>	<u>\$ 1.2</u>
Total Assets	\$508.3

Item 5 – Fees and Compensation

Knightsbridge’s institutional fee schedule has changed to an annual fee of 1.00%.

Item 14 – Client Referrals and Other Compensation

We have updated this item to reflect changes in Fidelity Wealth Advisor Solutions Program in which Knightsbridge participates. Under the program, a Fidelity affiliate acts as a solicitor for Knightsbridge, and Knightsbridge pays a referral fee for each referral who becomes a client of Knightsbridge.

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ITEM 4 - ADVISORY BUSINESS

Description of Advisory Firm

Knightsbridge Asset Management, LLC (“Knightsbridge,” “we,” “our,” or “us”) is an independent, 100% employee owned limited liability company headquartered in Newport Beach, California. Knightsbridge is registered as an investment adviser with the U.S. Securities and Exchange Commission.

The inception date of the track record for Knightsbridge’s flagship product, Opportunistic Value, was January 1, 1992, at which time we operated as a division of Canterbury Capital Services, Inc. On July 1, 1998, Alan T. Beimfohr partnered with John G. Prichard, CFA to establish Knightsbridge Asset Management, LLC as an independent entity and 100% of our client base transitioned to this new firm. Prior to 2011, the two founders were equal partners in the firm. John Prichard currently owns 100% of the firm.

Advisory Services Offered

Knightsbridge offers investment advisory services directly to retail and institutional clients in individually managed accounts, through sub-advisory and wrap-fee arrangements, and to unrelated registered investment companies.

Investment Management Services

Knightsbridge provides discretionary investment management services to clients in direct relationships through individually managed accounts. We typically offer our equity and balanced strategies to retail clients, and our equity strategies to institutional clients. Investment management services include the design, implementation, and continued monitoring of the client’s account.

The investment approach of our Opportunistic Value Equity strategy was conceived and developed as an attempt to increase the probabilities of outperformance and capital preservation by emphasizing market inefficiencies and investing opportunistically across a broad spectrum of market capitalization. We have applied this same investment approach to our Opportunistic Value Fully Invested Equity, Opportunistic Value Small/Mid Cap Equity (SMID Cap), and our Opportunistic Value International Equity products which we offer to institutional clients. This approach is the core of our strategies, which are then implemented for client accounts based on the objectives of the specific strategy and the guidelines and restrictions imposed by the client. We describe our investment philosophy further under ***Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.***

For our equity strategies, Knightsbridge’s recommendations for new investments will primarily include exchange-traded securities such as common stocks, American Depositary Receipts listed on US exchanges, foreign securities listed on foreign exchanges (ordinaries), Real Estate Investment Trusts (REITs) and interests in exchange-traded limited partnerships. Knightsbridge does not generally invest in IPOs or other limited offerings; however, there may be situations where we participate in shares issued by companies we own or companies that are under consideration. Knightsbridge’s balanced strategy, in addition to the equity securities described above, will include fixed income securities such as corporate,

government, and municipal bonds, floating rate notes, mutual funds, and ETFs. All accounts typically also hold positions in cash or cash equivalents.

In exercising our discretion, Knightsbridge may invest client accounts across the full range of market capitalization in U.S. or foreign securities (except that we apply capitalization constraints to SMID Cap investments) and may be invested with limited diversification among a small number of sectors and/or industries. Accounts are likely to be invested at significant variance to the overall equity markets as well as compared to any particular benchmark. Knightsbridge is not constrained in our allocation among stocks, bonds and cash in either equity or balanced accounts, and we will not be held responsible for rebalancing balanced accounts to any specific target allocation. Actual allocation among stocks, bonds and cash will vary over time in accounts.

Knightsbridge may also occasionally offer advice regarding additional types of investments based on other account strategies or in response to client inquiry. Knightsbridge may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for many of the securities that we recommend under the heading *Specific Security Risks* in *Item 8* below.

We offer standard and institutional fee schedules for investment management services. We describe the fees charged for investment management services below under *Item 5 - Fees and Compensation*.

We discuss our discretionary authority below under *Item 16 - Investment Discretion*.

On occasion and at our sole discretion, Knightsbridge may offer assistance to clients on a non-discretionary basis for accounts not managed by Knightsbridge and may or may not charge a management fee.

Limitations on Investments

Knightsbridge intends to carefully manage the firm's growth in order to preserve the effectiveness of our research and portfolio management approach. This limitation will include constraining assets under management in order to preserve the ability to purchase small and mid cap stocks while managing a concentrated portfolio of fifteen to twenty five stocks. We believe that the capacity for our Opportunistic Value Equity strategy is \$2-4 billion.

Knightsbridge may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see *Tailored Services and Client Imposed Restrictions* in this Item below.

Sub-Advisory Relationships and Wrap Programs

Clients can also access Knightsbridge's investment management services through unaffiliated third-parties under a sub-advisory relationship or through a wrap fee program. These services are offered as separately managed accounts in Knightsbridge's equity strategies, as described above. In limited cases, certain third parties have also negotiated to offer a balanced account option.

Knightsbridge has entered into sub-advisory agreements for portfolio management with Beacon Pointe Advisors, First Republic Wealth Advisors, LLC, and FUTR Family Management.

In addition, Knightsbridge manages portfolios as part of wrap programs offered by Barclays Capital, Inc., Credit Suisse Securities, Lockwood Advisors, Inc., Stifel Nicolaus & Company, Inc., and Wedbush Morgan Securities.

The fees Knightsbridge receives under these arrangements are described below under ***Item 5 - Fees and Compensation***.

Services to Registered Investment Companies

Knightsbridge provides investment advisory services to registered investment companies (mutual funds). Knightsbridge will enter into a written agreement which outlines the services we will perform for each fund.

Knightsbridge currently acts as sub-adviser to Clearwater Investment Trust Growth Fund and AXA Premier VIP Trust Multimanager Mid Cap Value Portfolio.

Knightsbridge does not purchase or recommend these funds for other investment management clients.

Tailored Services and Client Imposed Restrictions

Knightsbridge manages client accounts based on the investment strategy the client chooses, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***.

Clients may request restrictions on their account, such as when a client needs to keep a minimum level of cash in the account or does not want Knightsbridge to buy or sell certain specific securities or security types in the account. Consideration will be given to account diversification and/or concentrations as expressed by the client. Any client restrictions concerning the use of equity analogs, e.g. warrants, options, “percs,” convertible debt securities, convertible equity securities, “scores” or “primes” will be dealt with on an account by account basis. It is the client’s responsibility to keep Knightsbridge informed of any changes to their investment objectives or restrictions. Knightsbridge reserves the right to not accept and/or terminate management of a client’s account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client’s investment strategy.

Wrap Fee Programs

Knightsbridge manages accounts in wrap fee programs sponsored by other financial services firms. As part of these programs, the client pays a single bundled fee to the company offering the wrap fee program, instead of paying separately for Knightsbridge’s advisory services, commissions on transactions, custodian fees, and other transaction-related fees. The company sponsoring the program then pays Knightsbridge a portion of the wrap fee for our investment management services.

Knightsbridge chooses investments for clients in wrap fee programs the same way we make investment decisions for other client accounts with the same or similar investment strategy. However, because wrap fee programs are often offered by or connected to a broker-dealer, we will use that broker-dealer when placing trades for those accounts. If we used a different broker, that broker might charge the client transaction costs in addition to those they are already paying for under the wrap fee. Our trading practices, described below under **Item 12 - Brokerage Practices**, also affect wrap fee clients.

Knightsbridge also sponsors and acts as portfolio manager in our own wrap fee program. Knightsbridge's wrap fee program is described in our Form ADV Part 2A Appendix 1 wrap fee program brochure.

Assets Under Management

Knightsbridge manages client assets in both discretionary and non-discretionary accounts on a continuous and regular basis. As of September 30, 2012, the total amount of assets under our management was (in millions):

Discretionary Assets	\$507.1
<u>Non-Discretionary Assets</u>	<u>\$ 1.2</u>
Total Assets	\$508.3

ITEM 5 - FEES AND COMPENSATION

Fee Schedule

Investment Management Services

Knightsbridge charges advisory fees for investment management services based on a percentage of the client's total assets under management

Retail Fee Schedule

For retail clients, we offer services per the following standard schedule:

<u>Portfolio Value</u>	Annual Fee	
	<u>Equity Accounts</u>	<u>Balanced Accounts</u>
\$250,000 - \$500,000	1.60%	1.20%
\$500,001 - \$1,000,000	1.50%	1.10%
\$1,000,001 - \$3,000,000	1.40%	1.00%
Over \$3,000,000	1.30%	1.00%

Knightsbridge may combine related client accounts for purposes of determining fee break points. Once the client reaches a breakpoint, Knightsbridge bills all assets under management in the portfolio at the lower rate.

Other Fee Arrangements

There may be certain circumstances where our standard fee schedule does not apply.

1. In all cases, Knightsbridge reserves the right to negotiate fees with clients.
2. We may reduce or waive fees for employees of the firm and their family members or other parties at our discretion.
3. With certain clients, we have negotiated a performance-based incentive fee. These clients do not pay a regular management fee to Knightsbridge, but pay a fee based on the investment performance achieved in their account. Performance-based fee arrangements are only available to clients who meet financial or sophistication requirements imposed by law. **Item 6 – Performance-Based Fee and Side-by-Side Management** contains more information on these requirements.
4. In some cases, Knightsbridge manages portfolios for clients of third-party advisory, consulting, or brokerage firms for a reduced fee.
5. Sometimes a client may be introduced to Knightsbridge by a solicitor. In these cases, the fee schedule in the client's agreement may be specific to that particular solicitor and may vary from our standard fee schedule. Clients will never pay a higher management fee as a result of being referred by a solicitor than if the client had come to Knightsbridge directly. You can find additional details about our solicitor arrangements under **Item 14 – Client Referrals and Other Compensation**.
6. Knightsbridge also offers investment management services through our own wrap fee program. The wrap fee program bundles fees for Knightsbridge's advisory services and customary trading and execution costs. These fees are outlined in our wrap fee program brochure, Form ADV Part 2A Appendix 1.

Institutional Fee Schedule

Knightsbridge offers investment management of institutional accounts at an annual fee of 1.00%. Some accounts may be under different fee schedules honoring prior agreements.

Billing Method

Knightsbridge charges fees in advance or arrears depending on the nature of the client relationship (direct relationship with Knightsbridge, third party introduction, or institutional account). At Knightsbridge's discretion, we may make exceptions to our standard billing terms.

Fees are calculated quarterly based on the portfolio value of the client's assets under management, including accrued interest, at the close of business on the last day of the prior calendar quarter. All assets in any form in the client's account are considered in determining the portfolio value, including cash balances, money market assets, equity and debt positions.

Knightsbridge will pro-rate fees for any periods where we managed the account for less than a full calendar quarter (such as the inception or termination of an account). Fees are due no later than 30 days after the calendar quarter.

Clients generally authorize Knightsbridge to have the advisory fees withdrawn directly from their custodian account. For those custodians where Knightsbridge has the ability to debit fees, Knightsbridge will instruct the custodian to automatically withdraw our advisory fee from the client's account on a quarterly basis. The quarterly reports we send to clients will show the amount of the fee and the fee calculation. For those custodians where Knightsbridge does not have authority to debit fees, Knightsbridge will send an invoice to the custodian or directly to the client showing the amount of the fee and the fee calculation. Knightsbridge may also accommodate client requests to be billed directly.

All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Termination of Agreements

Either party may terminate the agreement upon ten (10) days written notice to the other party; however, the client can revoke our discretionary authority over the account at any time. The client will be responsible for paying fees for services through the effective date of termination. Clients may terminate the agreement by writing Knightsbridge at our office. Any notice shall be deemed effectively given upon actual receipt acknowledgement.

Upon notice of termination, Knightsbridge will calculate the final fees due for services provided through the date of termination. Any advisory fees that we have earned for the services provided will be due upon termination. If you paid fees in advance that were more than the amount due for services, Knightsbridge will refund any unearned fees to you. We will prorate the refund based on the effective date of termination.

Sub-Advisory Relationships and Wrap Programs

The annual fees Knightsbridge receives through third party sub-advisory and wrap programs range from 0.50% to .85% of assets depending upon the program, minimum investment requirements, and asset levels. The fees Knightsbridge receives for providing investment management services do not include other fees charged by the third party adviser to the client. Fees under these programs may be billed in arrears or advance, and Knightsbridge may be paid by the third party adviser or directly by the client, depending on the program.

Clients using Knightsbridge as a sub-adviser through third party adviser or wrap fee programs may terminate our management services per the terms in the agreement, which vary by program.

Services to Registered Investment Companies

The fees Knightsbridge receives for providing investment advisory or sub-advisory services to mutual funds will be negotiated with each fund and outlined in the written advisory agreement. The fees will be disclosed and described in each fund's prospectus.

Agreements with mutual funds may be terminated per the terms in the agreement, which may vary by fund.

Other Fees and Expenses

Except for clients participating in a wrap fee program or where otherwise agreed upon with the client, Knightsbridge's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees clients pay to Knightsbridge. See **Item 12 - Brokerage Practices** below for more information about the broker-dealers we use and the benefits we may receive from client transactions. Knightsbridge does not accept compensation for the sale of securities or other investment products, including asset-based sales charges.

ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Knightsbridge typically charges asset-based fees for our investment management services. Knightsbridge has also negotiated with certain clients the option of paying a performance-based incentive fee. We may only offer performance-fee arrangements to clients that meet certain internal and regulatory qualifications. Specifically, clients meeting assets under management or net worth tests of SEC Rule 205-3 under the Investment Advisers Act of 1940 may elect to have assets managed by the firm on a performance compensation basis.

Currently, performance-based fees are charged to certain direct retail clients. Incentive fees for eligible clients do not include an annual base management fee, but are charged strictly performance-based fees on a percentage of the portfolio net profits (generally 20% of profits) based on realized and unrealized gains and losses over a one year period, with losses carried forward. Performance fee rates have "high water marks" – losses are carried forward and must be made up before any performance-based incentive fees are due. Clients under these arrangements should review the fee agreement for more specifics about how the incentive fee is charged.

Knightsbridge manages assets for clients in individual accounts and mutual funds under different fee arrangements. We may receive fees from certain accounts that are higher than the fee we receive for managing the funds, or we may receive a performance-based fee on only certain accounts. These arrangements may create a conflict of interest for Knightsbridge as we may have incentives to:

1. Allocate investment opportunities that we believe might be the most profitable to accounts charged performance-based or higher asset-based fees; and/or

2. Make investments with more risk or that are more speculative than those that we might recommend under a different fee arrangement.

To address these types of conflicts, Knightsbridge has adopted policies and procedures reasonably designed to allocate investment opportunities between accounts on a fair and equitable basis over time and prevent non-suitable investments in client accounts.

ITEM 7 - TYPES OF CLIENTS

Knightsbridge offers discretionary investment advisory services to retail and institutional clients, including individuals, high net worth individuals, trusts and estates, individual participants of retirement plans, pension and profit sharing plans, charitable organizations, and businesses. In addition, we provide advisory services to unrelated investment companies (mutual funds).

Account Requirements

Generally, Knightsbridge requires a minimum account size of \$250,000 to open an account. We may combine family accounts of retail clients to meet the account size minimum. Knightsbridge may reduce or waive the account minimum requirements at our discretion.

ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies

Opportunistic Value Equity

The investment philosophy utilized in our flagship product, Opportunistic Value Equity, was originally developed by Alan T. Beimfohr in the 1980's for brokerage clients at Kidder Peabody & Co. Our current investment discipline was fully developed and our track record was fully discretionary by January 1, 1992, which became the inception date of our track record. John Prichard, CFA joined Alan Beimfohr in the research and portfolio management process in 1997. Our investment approach was conceived and developed as an attempt to increase the probabilities of outperformance and capital preservation by emphasizing market inefficiencies and investing opportunistically across a broad spectrum of market capitalization.

A key component to our philosophy is using security specific 'investment anomalies' that have a proven historical probability of outperformance. Most investment anomalies we use can be characterized by structural occurrence, forced turnover of the stock's shareholder base, lack of available information and/or negative sentiment, infrequent occurrence, unusual and/or complicated accounting, and/or low levels of Wall Street analyst following. Knightsbridge's investment team conducts internal, statistical studies and references academic research in determining investment anomalies to include in our securities research efforts.

Our approach is all-cap in an opportunistic sense, as we invest wherever we identify investment anomalies and undervaluation. Our style is value-oriented in an absolute sense, as we endeavor to invest in stocks valued meaningfully below both current peer group levels and historical company-specific norms. In most situations, we are most focused on cash flow based valuation. As contrarians, we are willing to invest in stocks that are controversial and/or that are significantly out of favor among investors and/or analysts. Our resulting portfolio is a concentrated portfolio of 15-30 of what we consider to be our best ideas.

Opportunistic Value Small/Mid Cap Equity

The Knightsbridge Opportunistic Value Small/Mid Cap Equity (SMID Cap) product seeks to deliver absolute performance in various market environments by investing in small and midsize companies using the same investment philosophy applied to Knightsbridge's flagship Opportunistic Value Equity Product. Given that the markets for shares of smaller companies are often more inefficient, the SMID Cap product was specifically created to take advantage of the power of certain anomalies in this capitalization space. Despite a focus on smaller capitalizations, the SMID Cap product seeks to maintain Knightsbridge's traditional flexibility to invest opportunistically without regard to index characteristics and, at times, to use cash as a defensive and volatility-reduction tool.

Opportunistic Value International Equity

The Knightsbridge Opportunistic Value International Equity product seeks to deliver absolute performance in various market environments by investing opportunistically, using the same investment philosophy applied to Knightsbridge's flagship Opportunistic Value Equity Product, among developed and emerging markets without regard to index characteristics. Country and sector weightings are largely the residual of security selection. The investment anomalies we seek to exploit are country and security specific. We conduct internal, statistical studies and reference academic research specific to international markets in order to evaluate the efficacy of our investment anomalies outside the U.S.

Methods of Analysis for Selecting Securities

Our universe of stocks is determined by the presence of one or more of our identified categories of investment anomalies. The common denominator among stocks in our universe is this presence of an investment anomaly, meaning stocks we consider have all experienced some situation or event which, we believe, increases the probability of outperformance. We typically are looking at 20 to 30 stocks within this universe at any given time.

We screen for the various anomalies used in our process utilizing a variety of different sources, including subscription publications and databases. Through these screening tools, we develop a watch list of candidates for potential inclusion in our portfolio. We then screen for valuation, favoring companies that are trading below historical norms for either the company or the peer group on a price to cash flow, revenue, earnings, and/or book basis. During this process, we also examine the capital structure of each company under consideration. Ideal candidates will have adequate cash flow to not only service debt, but pay down debt over time. We then project cash flows, revenues, earnings and book value out 4-5 years for the company, arriving at a price range where we feel the stock will trade at 3-4 years from time of

purchase. We are only interested in selecting stocks for the portfolio when we believe that they have the potential of delivering a return of 80-100% over a 3-4 year period. We often delay purchase until we can understand or conceive the form of resolution of any issues making the company controversial or out of favor. Entry and exit points into and out of the market itself are made with consideration given to market sentiment indicators in an attempt to minimize risk and enhance return.

In evaluating fixed income securities for balanced accounts, Knightsbridge considers the financial strength of the issuer, call provisions, liquidity factors, credit derivative spreads, and bond insurance in selecting bonds for purchase. Knightsbridge relies on credit rating agencies such as Standard & Poor's and Moody's to help determine the financial strength of issuing creditors. We also use prospectuses, other relevant information from bond underwriters, and/or sources of market data to help in analysis and selection of fixed income securities. Knightsbridge may solicit bids from several underwriters (i.e. brokerages) in an effort to obtain the most attractive price/yield on purchase.

Investment Strategies for Managing Portfolios

Knightsbridge manages client accounts by investing in a very limited number of securities; typically client portfolios contain 15-30 securities that we consider to be our best ideas. Clients should consider the risk that a very concentrated portfolio with limited diversification increases the possibility of substantial losses and depreciation of the portfolio. If the investments within the portfolio do not perform as expected, the security's increased weight in the account will have a larger negative effect on a concentrated portfolio than in a broadly diversified portfolio.

In our core strategies, Knightsbridge uses a long-only investment approach, consistent with our investment strategy and expectations for the securities we purchase. We may use cash as a defensive tool, and at times cash or cash equivalents may be a significant portion of the client's account; and accounts can hold up to 40% or more in cash at various times. While high cash levels can help protect a client's assets during periods of market decline, there is a risk that our timing in moving to cash is poor either upon exit or reentry into the market and we miss positive market moves. In addition, we generally seek to maintain some cash in client portfolios at all times so that we can invest in securities opportunistically as we identify purchase candidates without having to sell other portfolio holdings. We typically consider an account fully invested when we are holding between 5-15% cash. Finally, we may put cash to work in new accounts at a gradual pace and often will not fully invest accounts at inception.

Knightsbridge has the option, when we believe it is desirable to do so, to trade outside of the normal stock market hours. Trading before or after these hours is risky due to the significantly reduced number of stock market participants, which affects prices, volatility and liquidity, as well as the ease with which orders are executed. When we enter stock trades after hours, there are no guarantees that we will obtain the price we want or that the order will fill at all.

Strategy for Registered Investment Companies

When Knightsbridge provides investment advice to a mutual fund, we will purchase and sell securities as outlined in the fund's prospectus and statement of additional information. The securities we purchase and

investment strategies we use will generally be the same as those utilized for other managed accounts; however, mutual funds may have additional restrictions by regulation or fund policy to which Knightsbridge must adhere.

Investing Involves Risks

Prior to entering into an agreement with Knightsbridge, the client should carefully consider that:

1. Investing in securities involves risk of loss which clients should be prepared to bear;
2. Securities markets experience varying degrees of volatility;
3. Over time the client's assets may fluctuate and at any time be worth more or less than the amount invested; and
4. Clients should only commit assets that they feel are currently unneeded and available to Knightsbridge for investment on a long-term basis.

Specific Security Risks

Equity Securities

The prices of stocks and the income they generate (such as dividends) fluctuate based on, among other things, events specific to the company that issued the shares, conditions affecting the general economy and overall market changes, changes or weakness in the business sector the company does business in, and other factors.

There may be little trading in the secondary market for particular equity securities, which may adversely affect the ability to value accurately or dispose of such equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

Small Capitalization Equity Securities

Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

American Depositary Receipts (ADRs)

An ADR is a stock that trades on American markets but represents a specified number of shares in a foreign corporation. Banks and brokerage firms often issue/sponsor ADRs. ADRs are subject to risks of investing in foreign securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings. Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes. Depending on a custodian's ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the

foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

Debt Securities (Bonds)

The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include, but are not limited to:

Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity

and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

High-Yield Debt

Lower rated debt securities generally have higher rates of interest and involve greater risk of default or price changes due to changes in the issuer's creditworthiness than higher rated debt securities. The market prices of these securities may fluctuate more than higher quality securities and may decline significantly in periods of general economic difficulty.

There may be little trading in the secondary market for particular debt securities, which may make them more difficult to value or sell. The prices of, and the income generated by, most debt securities held by client accounts may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities in client accounts generally will decline when interest rates rise and increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call" or refinance a security before its stated maturity, which may result in the fund having to reinvest the proceeds in lower yielding securities. Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default. Longer maturity debt securities generally have higher rates of interest and may be subject to greater price fluctuations than shorter maturity debt securities.

Obligations Backed by the "Full Faith and Credit" of the U.S. Government

U.S. government obligations include the following types of securities:

U.S. Treasury Securities

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

Federal Agency Securities

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association

(Ginnie Mae), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC) and the Small Business Administration (SBA).

Other Federal Agency Obligations

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: operating under a government charter; specific types of collateral backing; the issuer's right to borrow from the Treasury; and/or only the credit of the issuing government agency or entity. These agencies and entities include, but are not limited to, the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Tennessee Valley Authority and Federal Farm Credit Bank System.

Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds may pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

State-Specific Risk

Securities issued by California municipalities are more susceptible to factors adversely affecting issuers of California securities. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California municipal bonds.

Securities with Equity and Debt Characteristics

Some securities have a combination of equity and debt characteristics. These securities may at times behave more like equity than debt or vice versa. Some types of convertible bonds, preferred stocks or other preferred securities automatically convert into common stocks or other securities at a stated

conversion ratio and some may be subject to redemption at the option of the issuer at a predetermined price. These securities, prior to conversion, may pay a fixed rate of interest or a dividend. Because convertible securities have both debt and equity characteristics, their values vary in response to many factors, including the values of the securities into which they are convertible, general market and economic conditions, and convertible market valuations, as well as changes in interest rates, credit spreads and the credit quality of the issuer.

These securities may include hybrid securities, which also have equity and debt characteristics. Such securities are normally at the bottom of an issuer's debt capital structure. As such, they may be more sensitive to economic changes than more senior debt securities. Investors may also view these securities as more equity-like by the market when the issuer or its parent company experience financial problems.

The prices and yields of nonconvertible preferred securities or preferred stocks generally move with changes in interest rates and the issuer's credit quality, similar to the factors affecting debt securities.

Real Estate Investment Trusts

Securities issued by real estate investment trusts (REITs) primarily invest in real estate or real estate-related loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

Investing Outside the U.S.

Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

Investments in developing countries can further heighten the risks described above. A developing country may be in the earlier stages of its industrialization cycle with a low per capita gross domestic product ("GDP") and a low market capitalization to GDP ratio relative to those in the United States and the European Union. Historically, the markets of developing countries have been more volatile than the markets of developed countries.

Developing countries may have less developed legal and accounting systems. The governments of these countries may be more unstable and more likely to impose capital controls, nationalize a company or

industry, place restrictions on foreign ownership and on withdrawing sale proceeds of securities from the country, and/or impose punitive taxes that could adversely affect security prices. In addition, the economies of these countries may be dependent on relatively few industries that are more susceptible to local and global changes. Securities markets in these countries are also relatively small and have substantially lower trading volumes. As a result, securities issued in these countries may be more volatile and less liquid than securities issued in countries with more developed economies or markets.

Cash and Cash Equivalents

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

Master Limited Partnerships (MLPs)

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them.

In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are “pass through” entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from “qualified resources” (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs may be required to pay distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

In addition to general business risks, MLPs bear these risks:

Risk of Regulation or Change

MLPs may be attractive investment opportunities due to their tax advantaged status. Therefore, a considerable risk to these securities is if the government changes the tax treatment of MLPs, thereby removing the tax advantage of holding such securities.

Interest Rate Risk

It is commonly thought that these types of investments perform better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform poorly during periods of rising or high interest rates.

Tax Risk

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities.

ITEM 9 - DISCIPLINARY INFORMATION

Knightsbridge seeks to maintain the highest level of business professionalism, integrity, and ethics and we expect our personnel to maintain such standards as well. Knightsbridge does not have any disciplinary information to disclose.

ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Knightsbridge does not offer any other services or have any affiliates in the financial industry.

ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

Knightsbridge believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. We have adopted a Code of Ethics that emphasizes the high standards of conduct that Knightsbridge seeks to observe. Knightsbridge's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

Knightsbridge's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. Knightsbridge's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, and adherence to applicable federal securities laws.

Knightsbridge will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

Personal Trading Practices

Individuals who make securities recommendations to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by the Code of Ethics. Knightsbridge or our personnel may trade in securities for our own accounts. The securities we trade in may be the same securities we recommend to clients, or they may be securities that do not meet the criteria of our investment process or we do not feel are appropriate for clients. We may also trade in related securities (e.g., warrants, options, or futures). Our personal trading practices present a potential conflict of interest as we may have an incentive to take investment opportunities from clients for our own benefit, favor our personal accounts over client accounts when

allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients.

Our policies to address these conflicts include the following:

1. We seek to always put the best interests of clients first and to never place our interests ahead of clients.
2. Knightsbridge prohibits trading in a manner that takes personal advantage of our knowledge of client transactions.
3. Knightsbridge personnel must request pre-clearance from our Chief Compliance Officer if they wish to purchase or sell a security. (Direct obligations of the US government, some short-term debt securities and CDs, money market funds, and certain mutual funds do not need to be pre-cleared.)
4. Knightsbridge has implemented a trading rotation policy for placing trades. If Knightsbridge is managing accounts for our personnel and wishes to include personal accounts in the same trading exercise as clients, trades of our personnel are placed last in the rotation. If a security being traded is common only to strategies where all client and employee accounts are with the same custodian, we may execute client and employee accounts together in the same block. Because the price of securities fluctuates during the day, we could trade in a security on the same day as a client and receive a better or worse price than the client does. Any difference in the prices we receive is never the result of our intentionally trading ahead of clients.
5. Conflicts of interest also may arise when Knightsbridge personnel have access to Limited Offerings or IPOs, including private placements or public or private offerings of interests in limited partnerships or any thinly traded securities, as a result of their position with Knightsbridge. Given the inherent potential for conflict in connection with Limited Offerings and IPOs, Knightsbridge personnel are required to obtain pre-approval from our Chief Compliance Officer before trading in these types of securities.
6. Because these policies are intended to protect the interests of clients, we may make exceptions where we feel clients would not be harmed.

Participation or Interest in Client Transactions

Cross transactions may create a conflict of interest. At times, a client may need to sell a security that we think is a good fit for another client's account. In this case, we may internally cross the security from the account of the selling client to the buying client's account. We will only engage in such a transaction when the proposed transaction is in the best interests of both clients. We do not "dump" a security into a client's portfolio just because another client needs to sell, nor do we decide to sell a security from one client's account just because another client needs a similar security. Usually, this situation arises with

fixed income securities where both clients benefit through better pricing by crossing the security instead of going into the open market to complete separate transactions.

All internal cross transactions will be priced at the independent current market price of the security. We will also take into account any additional fees charged to cross the security to ensure that the transaction is still appropriate for both clients. Transaction fees may be split between the clients participating in the cross trade or the whole fee may be charged to the client on one side of the trade.

Cross trades are an exception to Knightsbridge's normal operating procedures and can only be effected when it is of conspicuous advantage to both accounts in the absence of appropriate and comparable alternatives. Knightsbridge does not act as agent through a broker-dealer for any cross transactions effected for clients, and will never receive any commissions or other compensation for these trades (other than our normal advisory fees for managing the accounts).

ITEM 12 - BROKERAGE PRACTICES

The Custodians We Use

Clients open one or more accounts in their own name at an independent qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution). Many times, clients have an established custodian relationship in place. For clients in need of custodial services, Knightsbridge may provide the names of certain custodians as options for the client to consider, typically Fidelity Institutional Wealth Services ("Fidelity") and Schwab Advisor Services ("Schwab"). Knightsbridge receives brokerage and research services from the custodians we recommend that assist us in managing and administering our clients' accounts, as well as other services such as educational conferences and events and various publications from the custodians. In recommending these custodians, we may consider the research and brokerage services that the custodian offers to Knightsbridge and referrals we receive from the custodian (see *Brokerage for Client Referrals* in this Item, below). However, clients are not under any obligation to custody their assets with any custodian we recommend. All clients are free to select the custodian of their choice and Knightsbridge will endeavor to work with any custodian of the client's choosing, provided the custodian can meet Knightsbridge's requirements for portfolio administration (i.e., online access to the account, custodial data feeds, and electronic trading capabilities). The client will enter into a separate agreement with the custodian to custody the assets. Knightsbridge is independently owned and operated and not affiliated with any broker-dealer or custodian.

Factors Considered in Selecting Broker-Dealers for Client Transactions

Typically, when a broker such as Fidelity, Schwab, or others holds the client's account, the custodian generally does not charge separately for custody services. Instead, the custodian receives compensation by charging commissions or other fees on trades that it executes or that settle into clients' accounts. In addition to commissions, the custodians generally charge a flat dollar amount as a "prime broker" or "trade away" fee for each trade that is executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer.

In order to minimize trading costs for clients that would incur such “trade away” fees, Knightsbridge generally places trades with the client’s custodian. We consider this a “captive broker” relationship. We have determined that having the custodian execute most trades is consistent with our duty to seek “best execution” for those clients’ trades. Otherwise, unless requested by the client to place all or a portion of the client’s trades through a particular broker (see ***Directed Brokerage*** in this Item below), Knightsbridge will have discretion to select broker-dealers to execute client transactions.

In the case of accounts where Knightsbridge has the discretion to choose the broker for the execution of client transactions, Knightsbridge considers several factors in evaluating broker-dealers. Factors that Knightsbridge might consider include pricing, efficiency and accuracy of execution, error resolution ability, block trading capabilities, willingness to execute related or unrelated difficult transactions in the future, promptness of confirmation, access to trading desk, availability of research, online access to client account data, ease of navigating system, and other matters involved in the receipt of brokerage services generally. In evaluating bond brokers, we might alternatively consider bid response time, access to trading desk, competitiveness of pricing, and consistency of bonds shown to the types requested.

Knightsbridge monitors transaction results over time to evaluate the quality of execution provided by the various broker-dealers we use, to determine that commission rates are competitive and otherwise to evaluate the reasonableness of the compensation paid to those broker-dealers in light of the factors described above. Where Knightsbridge has discretion to select the broker utilized for client accounts, Knightsbridge will use reasonable efforts to negotiate commission rates for clients based on such factors as size of the account or price of the security traded. As a result, different clients may pay different commission rates.

Research and Other Soft Dollar Benefits

Subject to the policy of seeking best execution for transactions, and also subject to the criteria of Section 28(e) of the Securities and Exchange Act of 1934 (“Section 28(e)”), Knightsbridge may, in circumstances where we have brokerage discretion and in which execution is comparable, place trades with a broker that is providing brokerage and research services to Knightsbridge (“Research Broker”).

In selecting a Research Broker, Knightsbridge will make a good faith determination that the amount of the commission charged is reasonable relative to the value of the brokerage and research services received, viewed in terms of either the specific transactions or Knightsbridge’s overall responsibility to the accounts for which we exercise investment discretion. Subject to Section 28(e), Knightsbridge may place a trade with a Research Broker that charges a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and/or research services provided by the broker. This practice is commonly referred to as “soft dollars.”

Brokerage and research services provided by Research Brokers may include, among other things, effecting securities transactions and performing incidental services (such as clearance, settlement and custody) and providing information regarding the economy, industries, sectors of securities, individual companies, statistical information, taxation, political developments, legal developments, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis and performance

analysis. Such research services can be received in the form of written reports, telephone conversations, personal meetings with security analysts and/or individual company management, and attending conferences. When we use client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products, or services. Knightsbridge believes it is imperative to our investment decision-making process to have access to this type of research and brokerage.

Currently, Knightsbridge receives research from Bernstein, Capital Institutional Services, Charles Schwab, Deutsche Bank, ConvergeX, Fidelity, Goldman, Instinet, JP Morgan, Oppenheimer Co. Inc., and Vandham Securities. The research is available to Knightsbridge due to the fact that certain clients have their assets custodied with these firms or through soft dollar arrangements. Soft dollar arrangements are based on a system of research “credits” that accrue to us based on the amount of client commissions that the broker receives for executing client transactions that we direct to the broker. We can then use these credits to purchase the research we desire. The research services provided by a Research Broker may be proprietary and/or provided by a third party (i.e. originates from a party independent from the broker providing the execution services). When evaluating soft dollar arrangements, Knightsbridge considers the dollar value of the research we will receive under the arrangement and reviews that commission rates clients will pay appear reasonable. We generally monitor on a monthly basis the credits we have accrued with each broker and the dollar value of the research we receive from that broker. Over time and in keeping with our standards of best execution, we direct trades to these brokers to reach our research credit obligations.

Research services provided by Research Brokers may be used by Knightsbridge in servicing any or all of our clients, and may be used in connection with clients other than those making the payment of commissions to a Research Broker, as permitted by Section 28(e). In other words, there may be certain client accounts that benefit from the research services, which did not make the payment of commissions to the Research Broker providing the services. The receipt of brokerage and research services from any broker executing transactions for Knightsbridge’s clients will not result in a reduction of Knightsbridge’s customary and normal research activities, and the value of such information is, in Knightsbridge’s view, indeterminable. Nevertheless, the receipt of such research, although customary, may be deemed to create a conflict of interest between Knightsbridge and our clients and may give us an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products and services, rather than on our clients’ interest in receiving most favorable execution. Therefore, Knightsbridge feels it is important for clients to be aware of the issues surrounding “soft dollars.”

There may be cases when Knightsbridge receives both non-research (e.g. administrative or accounting services etc.) and research benefits from the services provided by the Research Brokers. If and when this occurs, Knightsbridge will make a good faith allocation between the non-research and research portion of the services received, and will pay “hard dollars” (i.e. Knightsbridge will pay with our own money) for the non-research portion. In making a good faith allocation between research services and non-research services, a conflict of interest may exist by reason of Knightsbridge’s allocation of the costs of such services and benefits between those that primarily benefit Knightsbridge and those that primarily benefit clients. Knightsbridge seeks to always put the client’s interests first.

Brokerage for Client Referrals

Knightsbridge participates in Fidelity's referral program. To receive referrals from the program, Knightsbridge must meet certain minimum participation criteria, but Knightsbridge may have been selected for participation in the program as a result of our other business relationships with Fidelity and its affiliates. Consequently, we may have an incentive to refer Fidelity as the custodian for our client accounts. Under the program, a Fidelity affiliate acts as a solicitor for Knightsbridge, and Knightsbridge pays a referral fee for each referral who becomes a client of Knightsbridge. See ***Item 14 – Client Referrals and Other Compensation*** below for additional information regarding the referral program.

Directed Brokerage

Clients who direct Knightsbridge to use a particular broker-dealer for all or a portion of the trading in their account may pay higher transaction charges. Under these circumstances, Knightsbridge may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. Clients should further understand that when they direct Knightsbridge to use a specific broker, disparity in transaction charges might exist between the transaction costs charged to other clients. Knightsbridge may not be able to aggregate orders to reduce transaction costs, and clients who direct Knightsbridge to use a particular broker-dealer may receive less favorable prices. In addition, clients may be affected by our trading rotation practices, described below. Any client providing instructions to Knightsbridge regarding direction of brokerage transactions must notify Knightsbridge in writing if the client desires Knightsbridge to cease executing transactions with or through a particular broker-dealer.

Wrap fee accounts are similar to a directed brokerage arrangement. Because wrap fee programs are often offered by or connected to a designated broker-dealer, we will use that wrap broker when placing trades for those accounts. If we used a different broker, the client would incur transaction costs in addition to the wrap fee. Under these circumstances, it is therefore possible that the client may not receive the best overall execution on trades through the designated wrap broker. Because the wrap fee charged by the designated wrap broker to the client is based upon assets and not transactions, Knightsbridge will not seek to negotiate lower commission rates on individual transactions or attempt to obtain discounted rates where the client's transaction is combined with those of other clients and traded as a "block." Consequently, depending upon the amount of the fee and the level of trading and services rendered to the client, the total fees the client pays under a wrap fee program may be more or less than the client would have paid if advisory and transaction related fees had been negotiated separately.

Aggregation and Allocation of Transactions

Knightsbridge may aggregate orders for clients in the same securities in an effort to seek best execution, negotiate more favorable commission rates, and/or allocate differences in prices and other transaction costs equitably among our clients.

Based on our management process and the securities we recommend, there may be times where we cannot or choose not to aggregate client trades or where trading opportunity for a particular security is limited. Knightsbridge may choose not to implement or aggregate a security purchase across all strategies for which the security is appropriate if, in our view, implementing the trade in certain strategies would not

be in the best interest of clients in those strategies at that time, based on market circumstances or other considerations. For example, this situation may arise where a desired security purchase would require selling other holdings in a strategy. In these cases, we may decide to only implement the purchase for client and employee accounts in other strategies that did not require a sale of portfolio holdings. In all circumstances, Knightsbridge attempts in good faith to allocate trades and investment opportunities among clients in a manner that, over time, is equitable to all our clients.

When aggregating orders and placing trades for managed accounts, Knightsbridge will observe the following procedures:

1. We will not aggregate transactions unless we believe that aggregation is consistent with our duty to seek best execution for our clients.
2. No client account will be favored over any other client account within a trading block.
3. Each account that participates in an aggregated transaction will participate at the average of the executed share price for that transaction.
4. Knightsbridge has implemented a trading rotation when placing trades for each new aggregated trade. The brokers we use for execution can be broken into the following main groups:
 - a. *Discretionary brokers.* Knightsbridge has full discretionary authority to choose the brokers to execute client transactions, regardless of where the account is held.
 - b. *Directed brokers and captive brokers.* Under directed brokerage arrangements, as described above, the client directs us to place all or a portion of the client's trades through a specific broker. While not specifically directed, under captive brokerage arrangements we trade through the client's custodian in order to limit additional trading costs charged to the client for trading away from the custodian broker. This is typically the case with brokers who discount custody and trading costs, such as Fidelity and Schwab.

Clients directing brokerage or arrangements where we are effectively limited to a specific broker reduce our ability to seek best execution for client transactions and are therefore placed after clients who give us full authority to choose brokers for their trades (see ***Directed Brokerage*** in this Item above). Clients should consider this policy when directing Knightsbridge to place trades through a specific broker.

- c. *Wrap brokers.* Third party wrap fee programs often designate a specific broker to execute trades for all clients in the program. Clients pay trading costs as part of the program fee, and using another broker would cause the client to pay additional fees.

Third party wrap programs may require Knightsbridge to place trades on a system separate from our regular trading system, which creates operational inefficiency in trading these accounts, increasing the time it takes us to enter and complete trades. We trade these brokers after others in the client rotation because the trading delays could negatively affect other clients who do not have these restrictions. We have found this practice is consistent with other investment advisers managing wrap fee programs.

- d. *Knightsbridge employee accounts.* Trades in accounts for Knightsbridge personnel will be placed after the client groups above. If the security being traded is common only to strategies where all client and employee accounts are with the same custodian, we may execute client and employee accounts together in the same block.
 - e. *Restricted client accounts.* Knightsbridge may exclude accounts in which clients have placed restrictions from the aggregated order to allow for additional time to review whether the particular transaction would result in a violation of the client restriction. Consequently, the account will not benefit from any price or commission advantages that may have been achieved through aggregation. The account will be traded after other accounts and may receive an execution price that is higher or lower than aggregated accounts.
- 5. We will allocate each transaction in writing prior to the time an order is transmitted to a broker for execution (Pre Allocation Order). In rare circumstances where timing is critical and we determine it would be in clients' best interests to promptly begin trading, we may transact in a security without a Pre Allocation Order. In such circumstances, allocations will be determined within four hours of beginning the trading exercise.
 - 6. If the aggregated transaction is filled entirely, it will be allocated among the accounts listed on the Pre Allocation Order. If the order is partially filled, we will allocate it on a random basis.
 - 7. If we determine that a random allocation is not appropriate under the particular circumstances, we will base the allocation on other relevant factors as follows:
 - a. We may allocate on a pro-rata basis. In cases when a pro-rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Knightsbridge may follow an alternative procedure below;
 - b. When only a small percentage of the order is executed, with respect to purchase allocations, allocations may be given to accounts high in cash;
 - c. With respect to sale allocations, allocations may be given to accounts low in cash;
 - d. We may allocate shares to the account with the smallest order, or to the smallest position, or to an account that is out of line with respect to security or sector weightings, relative to other portfolios with similar mandates;

- e. We may allocate to one account when that account has limitations in its investment guidelines prohibiting it from purchasing other securities that we expect to produce similar investment results and that can be purchased by other accounts in the block;
- f. If an account reaches an investment guideline limit and cannot participate in an allocation, we may reallocate shares to other accounts. For example, this may be due to unforeseen changes in an account's assets after an order is placed;
- g. We will document the reasons for any deviation from a random allocation.

ITEM 13 - REVIEW OF ACCOUNTS

Account Reviews

All client accounts are reviewed on a number of levels. Knightsbridge's portfolio managers are responsible for determining overall investment strategy and making security selection decisions. The investment team, including the firm's portfolio managers and research analysts, meets regularly to review buy and sale candidates and any overall changes to investment policy. Account managers are responsible for implementing the portfolio strategies for clients based on the restrictions and guidelines of each account.

Knightsbridge uses a portfolio management system which incorporates restrictions and portfolio guidelines for client accounts. Knightsbridge's portfolio administrators work with the account managers to monitor client accounts for compliance with the guidelines. Client accounts will be reviewed by the account managers if they are out of balance with the portfolio strategy or other account guidelines, with material account deposits or withdrawals, or upon changes to the client's investment objectives or restrictions.

Additionally, Knightsbridge's portfolio managers meet regularly and as needed to review all accounts, including risk exposure and performance of all portfolios. As part of this review process, a report is prepared which includes market value, cash, security position percentage, and performance information for each account.

Account Reporting

On a quarterly basis, clients in direct management relationships with Knightsbridge receive a written statement of account performance for their discretionary accounts under our management, along with written commentary discussing market environment and important shifts in sentiment, valuation and outlook. Knightsbridge may also provide additional reporting as agreed upon with the client on a case-by-case basis. Additionally, the custodian of client assets will provide statements at least quarterly which detail account securities holdings and account cash flows. Transaction confirmations will be provided by the clearing broker.

When Knightsbridge manages the client's account under a third party sub-advisory or wrap fee program, Knightsbridge does not provide individual reporting to the client.

ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

Brokerage Support Products and Services

We receive an economic benefit from broker-dealers/custodians in the form of the support products and services they make available to us and other independent investment advisors whose clients maintain their accounts at the custodian. These products and services, how they benefit us, and the related conflicts of interest are described above (see *Item 12 – Brokerage Practices*). We do not base particular investment advice, such as buying particular securities for our clients, on the brokerage products and services available to us.

Solicitor Arrangements

If an unaffiliated solicitor introduces a client to Knightsbridge, that solicitor will disclose the nature of the solicitor relationship with Knightsbridge at the time of the solicitation. In addition, either Knightsbridge or the solicitor will provide each prospective client with a copy of this brochure, and a copy of the written disclosure statement from the solicitor to the client disclosing the terms and conditions of the arrangement between Knightsbridge and the solicitor, including the compensation the solicitor will receive from Knightsbridge.

Participation in Fidelity Wealth Advisor Solutions®. Knightsbridge participates in the Fidelity Wealth Advisor Solutions Program (the “WAS Program”), through which Knightsbridge receives referrals from Strategic Advisers, Inc. (“SAI”), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. Knightsbridge is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control Knightsbridge, and SAI has no responsibility or oversight for provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for Knightsbridge, and Knightsbridge pays referral fees to SAI for each referral received based on Knightsbridge’s assets under management attributable to each client referred by SAI or members of each client’s household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to Knightsbridge does not constitute a recommendation or endorsement by SAI of Knightsbridge’s particular investment management services or strategies. More specifically, Knightsbridge pays an amount equal to an annual percentage of 0.20% of any and all assets in client accounts referred by SAI. The minimum annual fee payable to SAI by Knightsbridge under this arrangement is \$10,000. These referral fees are paid by Knightsbridge and not the client.

To receive referrals from the WAS Program, Knightsbridge must meet certain minimum participation criteria, but Knightsbridge may have been selected for participation in the WAS Program as a result of our other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC (“FBS”). As a result of our participation in the WAS Program, Knightsbridge may have a potential conflict of interest with respect to our decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and Knightsbridge may have a potential incentive to suggest the use of FBS and its affiliates to our advisory clients, whether or not those clients

were referred to Knightsbridge as part of the WAS Program. Under an agreement with SAI, Knightsbridge has agreed that we will not charge clients more than the standard range of advisory fees disclosed in our Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, Knightsbridge has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when Knightsbridge's fiduciary duties would so require; therefore, Knightsbridge may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit Knightsbridge's duty to select brokers on the basis of best execution.

ITEM 15 - CUSTODY

Knightsbridge has limited custody of clients' funds or securities in situations where clients authorize us to deduct our management fees directly from the client's account. A qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' funds and securities – Knightsbridge does not act as custodian for any client. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of Knightsbridge's fee. Clients should carefully review the account statements they receive from their qualified custodian. When clients receive statements from Knightsbridge as well as from the qualified custodian, clients should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive their statement from their qualified custodian at least quarterly should also notify us.

Knightsbridge does not act as custodian; however, Knightsbridge is deemed to have custody of most participant accounts in our own retirement plan because Knightsbridge's principal serves as trustee of the plan and Knightsbridge is the investment adviser to these accounts. Knightsbridge has established controls in compliance with federal rules to protect these assets over which we have custody. A qualified custodian holds the account assets and makes account statements available to participants, which they review at least quarterly. An independent accountant conducts annual surprise examinations of accounts over which Knightsbridge is deemed to have custody.

ITEM 16 - INVESTMENT DISCRETION

Knightsbridge has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. Knightsbridge will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us or with their adviser (in a sub-adviser relationship), or the program sponsor (in a wrap fee arrangement). Clients also give us trading authority over their accounts when they sign the custodian paperwork. Clients may revoke our discretionary authority at any time.

Certain client-imposed conditions may limit Knightsbridge's discretionary authority, such as where the client prohibits transactions in specific security types or directs Knightsbridge to execute transactions

through specific broker-dealers. See also *Item 4 - Tailored Services and Client Imposed Restrictions* and *Item – 12 Brokerage Practices*, above.

In addition, on occasion we may, at our sole discretion, offer assistance to clients on a non-discretionary basis.

ITEM 17 - VOTING CLIENT SECURITIES

Proxy Voting

Knightsbridge generally votes proxies for securities in managed accounts, unless that authority is retained by the client. In cases where Knightsbridge is responsible to vote proxies on securities held in a client's account, Knightsbridge has adopted policies and procedures in an effort to ensure that all votes are cast in the best interests of our clients and that the proper documentation is maintained relating to how the proxies were voted. Our policies and procedures are summarized as follows:

- We make every effort to ensure that we vote shares in the best interest of clients/beneficiaries and the value of the investment.
- Absent special circumstances, our policy is to exercise our proxy voting discretion according to written pre-determined proxy voting guidelines ("Proxy Voting Guidelines"). The Proxy Voting Guidelines are applicable to the voting of domestic and global proxies.
- Knightsbridge may subscribe to the services of unaffiliated third party proxy vendors that provide written vote recommendations/guidelines, proxy voting, and administrative and record-keeping assistance.
- Clients typically may not direct our vote for a particular solicitation in cases where Knightsbridge otherwise has proxy voting responsibility.
- In cases where sole proxy voting authority rests with Knightsbridge for plans governed by ERISA, Knightsbridge will vote proxies in accordance with our Proxy Voting Guidelines unless the plan's governing documents outline otherwise, subject to the fiduciary responsibility standards of ERISA.
- If Knightsbridge becomes aware of any type of potential or actual conflict of interest relating to a proxy proposal, Knightsbridge will promptly document the conflict and may handle the conflict in a number of ways depending on the type and materiality. The method selected by Knightsbridge will depend upon the facts and circumstances of each situation and the requirements of applicable laws and will always be handled in the client(s)' best interest.
- Knightsbridge may also choose not to vote proxies in certain situations or for certain accounts; for example, (1) where a client has retained the right to vote the proxies, (2) where Knightsbridge

deems that the cost of voting the proxy would exceed any anticipated benefit to the client, (3) when there is not enough information to render an informed decision, or (4) where a proxy is received for a client account that has been terminated.

A copy of Knightsbridge's current Proxy Voting Policies & Procedures is attached at the end of this brochure. Clients may obtain information on how their proxies were voted by contacting Knightsbridge at the principal office and place of business indicated on the cover page of this brochure. In their request, clients should include their name, and the account and security for which they are making the request.

Class Actions

A securities "class action" lawsuit is a civil suit brought by one or more individuals ("Plaintiffs") on behalf of themselves and others who have the same grievance against the issuer of a certain security. When a class action is filed, a written notice of filing and/or settlement is prepared (the "Notice"), which outlines the reasons for the lawsuit, the parameters for qualification as a member of the class and certain legal rights that need to be considered before becoming a member of the class (i.e. participating in the settlement). In addition, the Notice will contain instructions issued by the court or broker/dealers and/or other nominees (e.g. custodians) who receive the Notice and who hold the security on behalf of the owner/beneficiary, to either (1) provide the Claims Administrator (usually the attorney for the Plaintiffs) with the name and address of each such owner/beneficiary so the Claims Administrator can send the Notice directly to such owner/beneficiary, or (2) request additional copies of the Notice and send the Notice directly to the owner/beneficiary. In addition to the owner/beneficiary, Knightsbridge generally also receives notification of a class action.

In cases where Knightsbridge is responsible for filing class actions on behalf of clients, we will first determine whether we believe that a filing is in the best interest of clients. If Knightsbridge deems that participation in the class action is in the best interest of the client, Knightsbridge will complete the necessary forms and submit the claim on the client's behalf. In many cases, Knightsbridge can submit one claim covering all clients whose assets are held with a particular custodian. Knightsbridge may subscribe to the services of an unaffiliated third party class action vendor that completes the forms and submits the claims.

Knightsbridge will typically not act to file a class action claim for securities:

1. held in the client's account at the direction of the client;
2. held in the client's account that were not purchased by Knightsbridge; or
3. that were in a client's portfolio while not under Knightsbridge's management.

This policy has been adopted to reflect that Knightsbridge was not responsible for recommending or managing these positions.

ITEM 18 - FINANCIAL INFORMATION

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition if the adviser requires the prepayment of

more than \$1,200 in fees per client, six months or more in advance. Knightsbridge does not require such prepayment and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients; consequently, no additional financial disclosure is required.