

FORM ADV
PART 2A

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This Brochure provides information about the qualifications and business practices of NewSouth Capital Management, Inc. (“NewSouth”). If you have any questions about the contents of this Brochure, please contact us at (901) 761-5561 or by email at info@newsouthcapital.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.

NewSouth 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 NewSouth also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated June 29, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, clients or prospective clients may request our Brochure by contacting Ms. Kathleen Gardner, Vice-President, at the telephone number or email address listed on the first page of this Brochure.

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Item 4 – Advisory Business

NewSouth is an independently owned investment adviser founded in 1985. Prior to establishing NewSouth, its founding principals had worked together for more than ten years at another institutional investment adviser. Our employees own a majority of NewSouth's stock. The company's headquarters are located in Memphis, Tennessee. We manage assets for institutional and individual clients by investing in value style equities. Our four equity strategies include small and mid-capitalization U.S. companies, a small to mid or "SMID" cap value strategy and an "all cap" value strategy. We also invest client assets in fixed income securities and balanced accounts.

Our primary mission as a firm is to produce superior, risk-adjusted returns on both an absolute and relative basis.

We want to be known for our investment skill, the merits of our specialized investment approach, the excellence of our client communication, and the values that guide us in the conduct of our business. Our values will always include the recognition that client interests come first, a commitment to our investment principles, and constantly seeking new ways to improve and enhance our investment strategies.

We believe that our competitive advantages come from our independent, employee ownership, the quality and experience of our investment team, our concentrated portfolio structure, and an emphasis on risk management that seeks to protect our clients from the permanent loss of capital.

NewSouth tailors its advisory services to the individual needs of its clients. We place great emphasis on working with each client to determine the client's goals, objectives, resources, risk tolerance, and tax position. In consultation with the client, we seek to develop a set of investment objectives that are not inherently in conflict with each other and, when agreement concerning investment objectives and guidelines has been reached, we implement day-to-day investment decisions within the established guidelines. As circumstances change, NewSouth continues to work with its clients to make modifications to the objectives and guidelines, if appropriate. Clients may impose restrictions on investing in certain types of securities.

Each client's investment account is assigned to a portfolio manager who will be the primary contact at NewSouth. All trades on behalf of clients will, however, be reviewed by other portfolio managers associated with NewSouth.

NewSouth also participates in wrap fee programs by providing portfolio management services to wrap account clients and receives a portion of the wrap fees for its services. Wrap fee accounts are managed pursuant to the same strategies as other accounts.

As of May 31, 2011, the amount of client assets managed on a discretionary basis is:

\$1,937,200,000

The amount of assets managed on a non-discretionary basis is:

\$ (none)

Item 5 – Fees and Compensation

NewSouth provides its investment management services to clients on a discretionary or non-discretionary basis. Fees are based on the market value of account assets, as set forth in the fee schedule below.

Actual fees and minimum fees may be negotiated and may vary from the schedules below due to a client's specific circumstances, level of services provided, or other business considerations. Although NewSouth does not offer performance based fee arrangements to its clients generally, such fee arrangements may be available, subject to negotiation, upon request of a client. The specific manner in which fees are charged is established in the client's written agreement with NewSouth. Generally, fees are payable quarterly and determined by the market value of the account assets at the end of each calendar quarter. NewSouth's fees are not payable in advance; however, a limited number of clients who prefer to pay in advance are permitted to do so. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. In most cases, clients authorize payment of NewSouth's fees from their account assets upon presentation of a statement to the client's custodian. Clients may also elect to be billed directly for fees.

Basic Fee Schedule, Institutional Accounts.

NSCM Small Cap Value and NSCM Small/Mid Cap Value

1.00% - on the first \$25 million
0.85% - on the next \$25 million
0.75% - over \$50 million
Minimum Account - \$5,000,000

NSCM Mid Cap Value and NSCM All Cap Value

0.75% - on the first \$25 million
0.65% - on the next \$25 million
0.60% - over \$50 million
Minimum Account - \$5,000,000

NSCM Intermediate Fixed Income & Cash

0.40% - on the first \$25 million
0.35% - on the next \$25 million
0.30% - over \$50 million
Minimum Account - \$5,000,000

NSCM Balanced

0.70% - on the first \$25 million
0.60% - on the next \$25 million
0.50% - over \$50 million
Minimum Account - \$5,000,000

As an accommodation to clients, NewSouth may also manage short term fixed income and cash accounts at negotiated fees that are comparable to its fees for managing intermediate fixed income.

NewSouth also provides advisory services to certain private investment partnerships described in response to Item 10 of this brochure. For services provided to the partnership that invests only in equities, NewSouth receives an annual management fee equal to 1.5% of partnership assets under management, payable quarterly in arrears. For services provided to the partnership that invests in equities and fixed income securities, the annual management fee is .50% of partnership assets under management, payable quarterly in arrears. Investment in the partnerships is restricted to a limited number of investors who meet certain qualifications. The partnerships are offered pursuant to private placement memoranda.

NewSouth also provides investment advisory services in connection with wrap fee or similar programs sponsored by broker dealers or other investment advisers affiliated with broker dealers and is compensated with a portion of the wrap fee. The fees paid to NewSouth may vary by asset class and investment style, but generally range from 0.50% to 0.60% of the market value of account assets.

NewSouth's fees do not include 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, and other third parties such as custodial fees, transfer taxes, foreign dividend 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 NewSouth's fee. NewSouth does not receive any portion of these commissions, fees, and costs.

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

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

NewSouth does not offer performance based fees (fees based on a share of the capital gain or capital appreciation in client assets). However, in some cases, a client may request a performance fee arrangement and NewSouth may enter into such an arrangement with qualified clients. Any performance fee arrangements are subject to negotiation with the client. Performance fees are subject to the provisions of the Investment Advisers Act of 1940. Performance based fee arrangements may create an incentive for an adviser 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. NewSouth has adopted and implemented procedures to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Item 7 – Types of Clients

NewSouth provides portfolio management services to institutional clients such as corporate pension and profit sharing plans, public pension funds, banks, trusts, estates, Taft-Hartley plans, foundations, and endowments, and other charitable organizations. NewSouth also provides portfolio management services to individuals.

The minimum account size, as set forth in Item 5, is \$5,000,000. The minimum account size may be waived or modified at NewSouth's discretion.

NewSouth also provides investment advisory services in connection with wrap fee or similar programs sponsored by broker dealers or other investment advisors affiliated with broker dealers. The terms, conditions and other information concerning each wrap fee program are provided by the Program Sponsor's Form ADV or in its wrap program brochure.

According to information provided to NewSouth by the Program Sponsors, the Wrap Fee Programs generally operate as follows. Each Program Sponsor consults with certain of its clients to determine their financial goals and objectives. The Program Sponsors may recommend one or more participating portfolio managers to those clients whose investment and financial goals, objectives, and resources are compatible with the investment strategies followed by the portfolio managers. If a Program Sponsor's client selects NewSouth as a portfolio manager, NewSouth provides discretionary investment supervisory services to the client, implementing investment decisions within the guidelines established by the client. The Program Sponsors provide custodial, brokerage, and investment account reporting and monitoring services to the clients who participate in their Wrap Fee Programs.

In return for these services, the Wrap Fee Program clients pay a single all-inclusive fee to their Program Sponsors. The fee covers portfolio management services rendered by NewSouth as well as custodial, brokerage, reporting and other client services rendered by the Program Sponsor. NewSouth may effect transactions in the client's account through the Program Sponsor or through other broker dealers. However, brokerage transactions are typically effected through the client's Program Sponsor because the all-inclusive fee covers brokerage commissions only when transactions are executed through the client's Program Sponsor.

When NewSouth participates as a subadviser in a Wrap Fee Program, the Program Sponsor typically determines the minimum account size. Wrap Fee Programs generally have lower minimums than those NewSouth requires of its separate account clients.

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

Value Oriented Equity Investments

Value investors attempt to identify companies that they believe to be undervalued. NewSouth is a value oriented investment manager. We believe the market often misprices stocks due to neglect, emotion, misinterpretation, and a short-term perspective. In our view, the best way to capitalize on these inefficiencies is through bottom-up company research. Stock selection is limited to those businesses we are able to value confidently and purchase at a significant discount. Our analyses of companies allow us to establish an

informational edge with an emphasis on identifying how our insights about a company differ from the market's as well as our degree of conviction in these insights. Our analysis relies primarily on fundamental research. We study financial statements, regulatory filings and information, trade publications, and other industry and corporate data. We interview company management and talk to competitors and others.

Although NewSouth's investment analysis relies primarily on fundamental analysis, technical analysis offers a secondary but valuable complement in evaluating investments for purchase or sale and in setting overall investment policy. Therefore, certain technical timing services are monitored.

We consider our investment style to have a clear value orientation, but our investments are not limited to low expectation and out of favor companies or industries. We tend to avoid very high growth businesses because we believe that they are difficult to value. We typically allocate client assets to companies that fall into three sub-categories of value:

- Deep discount opportunities based on current earnings and asset values.
- Companies where a recognized catalyst is in place to uncover value — spinoffs, restructurings, and turnarounds.
- Discounted franchise businesses that possess durable competitive advantages and compete in markets with attractive long-term prospects.

Valuation Methodology

In assessing the intrinsic value of our portfolio companies, we utilize the valuation technique that best reflects the true economic worth of a company's assets. Our goal is to determine what we would pay to own the whole enterprise based on the cash flow we believe the business will produce over the long haul (discounted at an appropriate rate). Accordingly, we rely primarily on discounted cash flow analysis and comparable private market transactions. However, we also often employ other methodologies such as liquidation analysis or replacement cost when appropriate.

Strategies

Initially, NewSouth managed small and mid-sized company portfolios. Over time, we added a "SMID" (small to mid-sized) capitalization strategy as well as an all cap portfolio we call "Value Opportunity." Market capitalization distinctions are the only differences between these four strategies. Each one follows the same value oriented investment philosophy and decisions are made by the same investment team.

NewSouth ordinarily holds 25 to 35 companies in its portfolios. We believe that this level of concentration provides us with an adequate level of diversification and increases long term opportunities for superior returns.

Time Horizon

NewSouth believes that most successful equity investments are made with a longer time horizon in mind. As a portfolio manager, NewSouth sees its role as that of an accumulator of shares of businesses that offer above average returns over a 2 to 3 year period as opposed to focusing on short-term trading strategies. From time to time, however, sharp short-term price fluctuations may dictate sales and purchases in order to realize profits or reduce losses.

Selection Criteria

Price is not our only investment consideration. Our selection criteria include the following:

- Businesses we understand that possess sound capital structures and maintain conservative accounting policies.
- A current market price that is 35–50% below our estimate of intrinsic value.
- A business model that provides strong potential for per share intrinsic value growth.
- Management teams led by strong operators and proven capital allocators who have clearly aligned incentives in place to maximize shareholder value.

Risks – Equity Investments

Investing in securities involves risk of loss that clients should be prepared to bear.

General Market Risk There are risks inherent in investing in the public securities markets. Stock markets can be volatile. Prices can fluctuate and may fall rapidly in response to developments that affect a company or industry. Economic and political conditions can affect the equity markets.

Specific Company Risk Prices fluctuate over time. A company's stock price may decline in response to its financial prospects or changing expectations for its performance or because our evaluation of its prospects was wrong. Stockholders face a number of risks inherent in owning a business, such as operational, financial and regulatory risks. Companies NewSouth invests in must address these risks successfully; if they do not, their stock prices can decline.

Value Investment Risk With value oriented investing, there is a risk that the market will not recognize the company's intrinsic value for a very long period of time or that the adviser's estimate of intrinsic value was incorrect.

Small and Mid-Sized Company Risks. Companies with smaller capitalizations often have greater price volatility, lower trading volume, and less liquidity than the larger, more established companies. Depending on market and trading conditions, disposing of smaller company stocks could be more difficult. Smaller companies often have more limited product lines, markets, and managerial and financial resources.

Concentration Risk Concentrated portfolios that invest in a relatively small number of stocks may have more risk because changes in the value of a single security will have a greater impact on the portfolio's total return and its value could fluctuate more than if a greater number of securities were held.

Fixed Income Investments (Bonds)

NewSouth's fixed income objectives are the preservation of capital and consistent performance over a market cycle. NewSouth's orientation is toward defensive strategies in order to provide consistency of performance and to protect the underlying principal against the vagaries of inflation and its impact on interest rate volatility. We believe that these goals can be accomplished only through an active, value approach. We invest client assets in U.S. Treasury and agency bonds, municipal bonds, and corporate bonds, including high yield corporate bonds.

Our bond portfolios have staggered maturities with a normal average maturity in the three to five year range and the longest maturity rarely exceeding ten years. We emphasize quality and liquidity, and the use of corporate bonds is favored over government and agency bonds only when spreads widen to excessive levels. NewSouth also utilizes minor rebalancing strategies as changes along the yield curve dictate and occasional swaps are executed to capitalize on inefficiencies within different sectors of the market.

The credit analysis process in the corporate sector includes traditional fundamental analysis supplemented by credit research from Moody's, S&P, Duff & Phelps and other Wall Street firms.

We seek to add value to clients' bond portfolios by emphasizing quality, liquidity and diversification. Call protection is emphasized to reduce reinvestment risk.

Risks – Fixed Income Investments (Bonds)

Investing in securities involves risk of loss that clients should be prepared to bear.

General Market Risk There are risks inherent in investing in the public securities markets. Bond markets can be volatile. Prices can fluctuate and may fall rapidly in response to developments that affect a company or industry. Economic and political conditions can affect the bond markets.

Interest Rate Risk Fixed income securities may decline in value because of changes in interest rates. Bonds with longer durations tend to be more sensitive to changes in interest rates, making them more volatile than bonds with shorter durations.

Credit Risk An account can lose money if the bond issuer or guarantor is unable or unwilling, or is perceived as unable or unwilling, to honor its obligations. A credit rating downgrade may decrease the value of a bond.

High Yield Bond Risk Securities commonly known as "junk bonds" are rated below investment grade by credit ratings agencies and are generally considered speculative. An economic downturn or period of rising interest rates could have an adverse effect on the market for high yield bonds and reduce liquidity. If the issuer defaults, the investor could lose its entire investment.

Liquidity Risk When the market for certain fixed income securities is illiquid, it is difficult to purchase or sell investments at a favorable price or at the preferred time. Markets can become illiquid for many reasons, including adverse changes in the issuer's business or sector or because general economic conditions are adverse.

Risks – Private Investment Funds

Risk Associated with Investment in Private Funds. NewSouth also manages assets for privately held limited partnerships for which it acts as general partner and investment manager. Investment in the limited partnerships is limited to a small number of qualified investors. See, Item 10 of this Brochure. There are certain additional risks associated with investing in privately held investment funds. Those risks are disclosed in the private placement memoranda pursuant to which investment in the partnerships is offered.

Item 9 – Disciplinary Information

As a registered investment adviser, NewSouth is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of the company or the integrity of its management. NewSouth has no legal or disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

NewSouth's only business activity is furnishing investment advice. Neither the company nor any of its principals is actively engaged in any other business activity. In addition, NewSouth is independently owned, primarily by its employees, and has no affiliation with a broker dealers, commodities advisers, banks, insurance companies, or other companies doing business in the investment or financial industry.

Private Investment Funds

NewSouth is affiliated with two private investment funds which it established and manages. It is the general partner and investment manager of two limited partnerships formed for the purpose of investing partnership assets pursuant to value oriented investment strategies. As general partner, NewSouth receives a pro-rata share of the partnership profits and, as investment manager, it receives an investment advisory fee from the partnerships. The partnerships are privately offered pursuant to private placement memoranda and limited to a small number of qualified investors. A number of NewSouth's principals have also invested in the partnerships.

NewSouth invests partnership assets pursuant to the same or similar value oriented equity strategies that it employs when it invests separate account assets. Potential conflicts of interest can arise when the partnerships buy or sell or hold positions in securities which NewSouth also recommends to other advisory clients. To mitigate any potential conflicts of interest, NewSouth has adopted written policies, including a Code of Ethics, that impose internal controls over trade management and the fair aggregation and allocation of trades.

Item 11 – Code of Ethics

NewSouth has always recognized that its first duty is to its clients. In selecting investments for its clients, NewSouth's managers search for companies in which the officers and directors have a meaningful ownership stake. NewSouth is committed to the same principle when it comes to the personal investments of its managers. NewSouth believes that it is better for portfolio managers to invest with their clients rather than separately from them. Therefore, when NewSouth managers invest client funds in portfolio companies, they frequently commit their own funds to investment in the same companies.

NewSouth also recognizes that potential conflicts of interest can arise from the personal investment activities of its principals and employees. In addition to its basic philosophical commitment always to place the interests of its clients above the personal interests of its principals and employees, NewSouth has addressed

potential conflict of interest issues in its Code of Ethics. The Code of Ethics limits and monitors the personal trading activities of our employees and members of their households. It is designed to assure that the personal securities transactions, activities, and interests of the employees will not interfere with making decisions in the best interest of advisory clients while, at the same time, allowing employees to invest for their own accounts.

All employees are required to obtain prior written approval from at least two members of NewSouth's Compliance Committee before buying or selling securities (government bonds and open end mutual funds excepted) and to report periodically all securities holdings to the Compliance Committee. The NewSouth Code of Ethics also prohibits principals and employees from executing personal investment transactions when an order is pending to buy or sell the same security on behalf of a client until the client's order is executed or withdrawn. It restricts and, in most cases, prohibits short-term trading.

NewSouth's role as general partner of a private investment fund and its management of accounts in which its employees or family members have an interest, such as the company's pension and profit sharing plan, create certain conflicts of interest. Therefore, in addition to the Code of Ethics, NewSouth has also adopted and implemented policies concerning internal controls over trade management and the fair aggregation and allocation of trades. Reports and trade blotters are regularly reviewed by members of the Compliance Committee and other officers.

The NewSouth Code of Ethics also addresses other aspects of business conduct, legal compliance, and the responsibilities of investment fiduciaries. We provide a copy of the Code of Ethics to each employee when hired and annually thereafter. Each employee must confirm his or her review, understanding, and compliance with the Code. NewSouth will furnish a copy of its Code of Ethics to any client or prospective client upon request by contacting us at the telephone number or address noted on the cover page of this Brochure.

Item 12 – Brokerage Practices

Selection of Broker-Dealers for Client Transactions

NewSouth considers a number of factors in selecting broker-dealers to execute transactions in client portfolios.

Among the factors NewSouth considers in evaluating brokers are their general and special execution capabilities, clearance and settlement, reputation, financial viability, efficiency, error resolution, fees, and research services. When NewSouth selects brokers to execute transactions in client portfolios, NewSouth negotiates a brokerage fee based on the services rendered. Brokers selected by NewSouth may be paid a commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of these and other attributes and services.

NewSouth has adopted a Best Execution and Trade Management Policy and appointed a Trade Management Oversight Committee consisting of five officers who review its brokerage practices and policies, consider the range and quality of services offered by broker dealers, and monitor efforts to obtain best execution of transactions in its clients' accounts.

Research and Other “Soft Dollar” Benefits

In selecting brokers, NewSouth may also consider a broker’s provision of certain investment research services that assist NewSouth in making its investment decisions.

Many broker dealers produce their own investment research products and services, often referred to as “proprietary research.” Other broker dealers contract with third parties to purchase investment research that the broker dealers then furnish to investment advisers; third party research is often referred to as “independent research.” The broker dealers who produce proprietary research typically furnish that research to advisers who regularly direct brokerage business to them. The broker dealers who purchase independent research from others and furnish it to investment advisers typically provide credits, based on the dollar volume of brokerage commissions an adviser directs to them. The credits generated from commissions paid to these brokers can then be applied to the cost of independent investment research products and services such as publications about companies, market reports, reports on economic trends, reports analyzing performance of companies, sectors, and stocks, purchase and sales by company insiders, industry information, important corporate events, SEC filings and similar research services and products.

Regardless of whether the broker dealer furnishes proprietary investment research or independent investment research, the furnishing of research (and execution) services to the money management community by broker dealers is generally known as a “soft dollar” practice. Federal securities law provides a “safe harbor” to investment managers who use commission dollars to obtain investment research and brokerage services that provide assistance to the manager in performing investment decision making responsibilities. NewSouth intends that all soft dollar practices in which it participates will come within the soft dollar safe harbor.

When directing brokerage, NewSouth generally considers the amount and nature of research, execution and other services provided by brokers as well as the extent to which NewSouth relies on these services and attempts to allocate a portion of its brokerage business on the basis of that evaluation. No broker dealer is precluded from receiving business because it does not provide soft dollar services to NewSouth. These services are only one of a number of factors NewSouth considers in selecting brokers.

Commissions paid to soft dollar brokers must be reasonable in light of the services rendered and within the range that NewSouth pays to comparable brokers for the execution of comparable transactions. At the same time, these trades and trades executed through other brokers may not be executed at the lowest price available from any broker.

NewSouth believes that the investment research and execution services provided by these brokers are beneficial to its clients. However, because the services and products assist NewSouth in its investment decision making and in the execution of client transactions, they are also beneficial to NewSouth because NewSouth does not have to produce or pay for the research, products, or services. Therefore, NewSouth’s selection of brokers who provide soft dollar services can create conflicts or potential conflicts of interest because the soft dollar services could influence NewSouth’s judgment in selecting brokers to execute transactions in client accounts. NewSouth may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research, products, and services rather than on its clients’ interest in receiving most favorable execution. Additionally, NewSouth does not allocate soft dollar benefits to client accounts proportionately to the soft dollar

credits the accounts generate. The client accounts whose brokerage business generates the soft dollar research may be used to benefit most or all client accounts and not all such services may be used by NewSouth for the benefit of the accounts that paid the commissions to the broker providing the services. With respect to NewSouth's purchase of research information with commission dollars, clients who provide NewSouth complete discretion in selecting brokers to execute transactions for their accounts may provide research benefits to NewSouth in managing accounts of those clients who do not provide NewSouth such discretion.

NewSouth is mindful of the conflict of interest issues that arise in connection with soft dollar practices and has addressed these issues by establishing the following guidelines. NewSouth does not and will not assume any contractual obligations with any broker dealer to direct a specified volume of brokerage in exchange for investment research or execution products or services. The brokers NewSouth selects, whether or not they provide research services, must satisfy the conditions NewSouth demands of brokers: execution capabilities, clearance, settlement, reputation, financial strength and stability, and other factors of that nature. In short, the brokers that provide soft dollar services to NewSouth must be brokers that NewSouth considers qualified and would select regardless of the soft dollar services they provide. The commissions charged by such brokers must also be, in NewSouth's judgment, reasonable in light of the value of all services they provide and well within the range of commission rates established for the client and charged by comparable brokers for execution of similar transactions.

NewSouth's Trade Management and Oversight Committee, together with members of the Equity Research Group, determine annual commission targets for broker dealers that provide research services, based on their evaluation of the quality and value of the research services they provide. The Committee meets quarterly to review and evaluate the performance of broker-dealers with whom it places orders. The Committee's evaluation is based on a number of factors, including the research services provided by certain broker-dealers and the amount of commission dollars paid to those broker-dealers during the current calendar year. Representatives of the Equity Research Group also participate in these evaluations.

The types of research services NewSouth acquired with client brokerage commissions during its last fiscal year included the following: statistics and financial information on corporations; market and company news; reports on potential spin-offs; transcripts of conference calls; research on bankruptcies; reports on insider buying; economic analyses, global, domestic, and by industry; stock quotes; and post trade settlement support services.

Order Aggregation and Allocation of Trades

Aggregation of orders could, on average, reduce slightly the commission charged for executing a trade. NewSouth may aggregate client purchase and sale orders of securities with those of other clients if, in NewSouth's judgment, such aggregation is reasonably likely to result in an overall economic benefit to its clients, lower commission expenses, beneficial timing of transactions, or a combination of these and other factors.

When NewSouth decides to purchase or sell a security, the transaction decision will frequently apply to a number of client accounts, but all client accounts cannot participate in each order and aggregated orders cannot always be completely filled. NewSouth has adopted policies and procedures governing aggregation of orders and allocation of trades to assist in assuring that no clients are systematically favored or disadvantaged in the process. If a broker fills an aggregated order at different prices during the course of a given business day, each client account that participates in that order will do so at the average share price on that day. If an aggregated order

is only partially filled, NewSouth will allocate shares pro-rata among all participating client accounts when it is reasonable to do so, and by other equitable methods when a strict pro-rata allocation would produce an illogical result. NewSouth uses specialized software to assist it in aggregating client orders and allocating trades fairly and equitably among client accounts in accordance with its policies and procedures.

Client Directed Brokerage

Many of NewSouth's clients have established relationships with particular brokers who provide custodial services as well. In some cases, these brokers also provide other services to their clients including one or more of the following: reporting and record keeping, performance review and evaluation, commission recapture, general investment consulting, and other financial services. In consideration of these services, the investor may elect to pay a higher commission rate than the advisor could obtain elsewhere.

However, there are certain considerations that investors, generally, should take into account when directing all or a portion of their brokerage through a particular broker. These considerations include at least the following: if a client instructs NewSouth to direct its brokerage to a broker that NewSouth does not ordinarily use to execute orders or particular types of orders for its other clients, that client may forego the benefits of savings that NewSouth could obtain for its other clients through, for example, negotiating lower commissions for aggregated orders, or, if a client instructs NewSouth to use a broker that is not on NewSouth's list of approved brokers, there may be additional credit and/ or settlement risks or a less favorable execution price.

Although investors often direct brokerage through their custodial brokers at pre-established commission rates, they are not required to do so. Other alternatives exist. An investor may retain a custodian, but authorize NewSouth to select other brokers for transactions in the account. Investors have the option of retaining a bank or similar financial institution as custodian of their account assets, paying an annual fee for custody, record keeping, and reporting services, and authorizing the advisor to select the brokers for all account transactions. Another alternative that investors sometimes select is a "wrap fee" arrangement. Here, the broker custodian charges a specified fee for providing the client with a variety of investment related services, such as brokerage, custody of assets, record keeping and reporting, and general investment consulting services. There are no separate charges for brokerage transactions or other specified services; all charges are "wrapped" into the single fee. When an investor selects a wrap fee arrangement, the adviser will almost always direct all trades in the investor's account through the wrap fee broker because the use of other brokers would result in additional commission charges.

The markets for investment related services are subject to change and other arrangements may also be available. Each investor should carefully consider the options, taking into account his or her needs for particular services, the size of the investment account, and the investment style and strategy of the investment adviser.

Brokerage for Client Referrals

Investors should also be aware that investment advisers, including NewSouth, have a conflict of interest whenever a broker refers a client to the adviser and the client instructs the adviser to direct brokerage transactions to the referring broker. If the referring broker charges commissions that are higher than those the adviser could obtain elsewhere for comparable brokerage services, the investor may pay unnecessarily high commissions. NewSouth may be unable to achieve most favorable execution of the client's transactions and

this may cost the client money. Moreover, the adviser's use of the referring broker to execute transactions in the client's account may encourage the broker to refer other clients to the adviser. Similar conflicts may arise regardless of whether the client referral is made by the broker. Whenever NewSouth is instructed to execute brokerage transactions through a single broker and NewSouth follows those instructions, the broker may have an incentive to refer additional clients to NewSouth.

Item 13 – Review of Accounts

Each investment account is assigned to a particular portfolio manager, a management level employee, who will be responsible for making investment decisions concerning the account in a manner consistent with the Equity Research Group's decisions and the client's investment objectives.

There are eight portfolio managers at NewSouth, each of whom reviews all trades made in all investment accounts daily, through the circulation of daily blotters. Such daily reviews are designed to ensure overall compliance with NewSouth's investment policies and the investment objectives of particular clients.

Many factors trigger account review by a portfolio manager, including the decision to add or eliminate a particular investment, to raise or lower cash reserves based on market considerations, to raise cash for distribution to clients at their request, to invest new cash contributions to a portfolio, and to alter asset mix as market conditions dictate.

NewSouth provides periodic written reports based on the reporting needs of its clients. Generally, clients receive a quarterly evaluation of their portfolios, including a listing of assets at cost and market, estimates of annual income returns, and performance comparisons versus appropriate benchmarks. NewSouth makes an effort to provide special reports and to develop customized reporting formats if needed by its clients.

For clients associated with wrap programs, NewSouth typically furnishes periodic reports to the program sponsors who then provide periodic reports to the clients.

Item 14 – Client Referrals and Other Compensation

In connection with the Wrap Fee Programs described in Item 7, Program Sponsors have, from time to time, provided the independent managers, including NewSouth, with computer software or electronic services used to communicate, store, and provide information concerning the account assets of clients participating in the Programs. The software or electronic services provided by the Sponsors is used by NewSouth solely and exclusively in connection with the particular Sponsor's Program and clients. All or a substantial portion of the cost of these items is typically paid by the Wrap Program Sponsor that provides them. NewSouth's response to Item 12 above includes additional disclosures concerning brokerage practices and economic benefits received from brokers.

Item 15 – Custody

Separate Accounts

NewSouth does not act as a custodian for client account assets. Clients make their own arrangements for custodial services with brokers, banks, or other qualified custodians. The qualified custodian will provide the clients with account statements quarterly or more frequently. NewSouth also provides quarterly account statements to its clients. Clients should compare the account statements they receive from their custodians to the account statements they receive from NewSouth. Our statements may vary from those furnished by the custodian based on accounting procedures, reporting dates, or valuation methodologies.

The Private Investment Partnerships

Under the securities laws, NewSouth is deemed to have custody of the account assets held by the private investment partnerships described in Item 10 because it serves as general partner of the partnerships. However, NewSouth does not have actual physical custody of the partnership assets. Those assets are held by an independent qualified custodian. The partnerships are audited annually and the annual financial statements are distributed to the limited partners.

Item 16 – Investment Discretion

NewSouth usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold and the timing of account transactions. This authority is set forth in the advisory agreement between NewSouth and the client. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

Clients may place certain restrictions and limitations on NewSouth's investment authority. When selecting securities and determining amounts, NewSouth observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to NewSouth in writing.

Item 17 – Voting Client Securities

Most of NewSouth's advisory agreements authorize NewSouth to vote client proxies. NewSouth's Proxy Voting Policy, like its investment policy, is focused exclusively on increasing shareholder value. NewSouth does not vote proxies for the purpose of furthering social or political agendas such as environmental issues, employment principles, local, national, or international issues, or any other issues commonly considered social or political unless NewSouth believes that such issues would have a demonstrable economic impact on the portfolio company.

NewSouth also respects the decisions of those clients who have chosen to incorporate social and/or political objectives into their investment programs. Such clients have the option of directing NewSouth, in writing, to vote their proxies according to specific instructions. Clients may retain proxy voting authority if they wish to do so.

NewSouth's Proxy Policy describes its voting policies with respect to certain frequently recurring proxy proposals such as election of directors, selection of auditors, corporate governance, takeover defenses, and certain capitalization and compensation issues. The Proxy Officers are responsible for implementing the policy.

The Proxy Policy also describes NewSouth's procedures for resolving any conflicts of interest that may arise as a result of business or personal relationships with portfolio companies. Because NewSouth is an independent adviser that does not provide other financial services directly or through affiliates, such conflicts of interest arise infrequently. However, NewSouth recognizes that conflicts of interest may arise if, for example, NewSouth provides asset management services to a portfolio company. When any such conflict is identified, NewSouth's Proxy Voting Policy requires the Proxy Officers to vote the proxies as follows. First, if the proposal is clearly covered by a specific, predetermined voting policy, the proxy will be voted in accordance with that policy. Second, if the proposal is not clearly covered by a predetermined policy, NewSouth's Proxy Officers will either (i) disclose the conflict to its clients, describe the manner in which it intends to vote, and request the clients' consent or direction, or (ii) consult with independent third party sources and vote the proxy in accordance with the third party's recommendations.

NewSouth clients may obtain a copy of its Proxy Voting Policy by contacting Jeff Drinan or Kathleen Gardner at the telephone number or address set forth on the cover page of this Brochure. Clients may also obtain information about how their proxies were voted by contacting Mr. Drinan or Ms. Gardner.

Item 18 – Financial Information

In this Item, NewSouth is required in to provide you with information concerning any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. NewSouth is not aware of any such condition.



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