

McClain Value Management, LLC



**175 Elm Street
New Canaan, CT 06840**

**Phone: 203-966-3197
Fax: 203-966-3460**

www.mcclainvalue.com

As of January 31, 2018

This brochure provides information about the qualifications and business practices of McClain Value Management, LLC, and is intended to fulfill the requirements of Part 2A of Form ADV. If you have any questions about the contents of this brochure, please contact us at 203-966-3197 or pmcclain@mcclainvalue.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. Registration as an Investment Advisor does not require and should not be interpreted to imply any special qualifications.

Additional information about McClain Value Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

The only material changes since our last ADV Part 2A, dated January 31, 2017 reflect updated assets under management and verbiage related to recently launched strategies including Tactical Value and Conservative Income.

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Item 4 - Advisory Business

McClain Value Management (“MVM” or the “firm”) was founded in 2001 by Phil McClain. In 2008, Joseph Donaldson joined the firm to co-manage both the investment portfolios and the firm. Joseph is fully vested in a 35% equity stake with Phil McClain holding the remaining 65%. Phil McClain and Joseph Donaldson are the sole equity holders of the firm. There are no other related entities and the firm has no debt. The firm’s clients consist of institutional investors, high net worth and other individuals.

MVM’s investment advice is limited to the portfolio management, other investment management services and equity research services described herein. The firm’s historical investment strategies – Select Value, Core Value and Small Cap Value, as well as its more recently introduced Opportunity and Tactical Value strategies - can all be described as “concentrated, out-of-favor value”. The firm also recently introduced a Conservative Income strategy which primarily invests in fixed income mutual funds and ETF’s complemented with a small proportion of income-oriented stocks. Each of the firm’s strategies are described more fully in Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.

In general, each client within a particular strategy will have the same portfolio holdings and weightings as any other client. However, certain stock-specific restrictions can be accommodated such as socially responsible mandates and high net worth individuals who might have an executive or insider role at a particular company. Temporary differences may arise from the firm’s policy of mitigating short term gains for taxable accounts.

We offer discretionary asset management services only. As of January 31, 2018, MVM manages \$92 million in client assets under management. MVM does NOT participate in wrap fee programs.

In addition to its primary portfolio management business, MVM also has two other business lines; investment management outside of the primary MVM managed portfolios and equity research services. The investment management services that are not part of the primary MVM managed portfolios include, but are not limited to, asset allocation and investment recommendations relating to mutual funds, bonds and money market funds. These services typically entail MVM implementing the recommendations.

The firm’s equity research services are provided to one client, a larger institutional investment advisor. Such services may include providing investment recommendations, brief reports, financial models and client consultation.

Item 5 - Fees and Compensation

MVM earns compensation for both its investment strategies and its other investment management services based on each client’s assets under management. Unless otherwise negotiated, the firm’s current schedule for its investment strategies is as follows:

	<u>Equity Strategies</u>	<u>Income Strategy</u>
On the first \$10,000,000	1.00% per annum	0.40% per annum
On the next \$15,000,000	0.90% per annum	0.30% per annum
Over \$25,000,000	0.80% per annum	0.25% per annum

No fees are payable in advance. Fees are calculated quarterly in arrears based on the market value of the client’s account at quarter-end. Upon written request, client may instead calculate its fees based on an average daily balance method. Clients are invoiced shortly after quarter-end. When permissible by the client’s custodian, the client may choose (via written authorization) to have MVM deduct such fees directly from the client’s account.

In addition to MVM's investment advisory fees, clients incur brokerage and other transaction costs (commissions, etc.) that are paid to executing brokers. Such costs are explained more fully in Item 12 – Brokerage Practices. Clients should also be aware that certain custodians sometimes charge fees for miscellaneous services including trade away fees, generally on smaller accounts. Finally, with respect to the firm's other investment management services, although MVM prefers utilizing no-load funds, clients should be aware that mutual funds levy their own investment management and administrative fees.

Fees for equity research services are negotiated on a case by case basis.

Supervised persons at MVM do not accept compensation for the sale of securities or other investment products and therefore, the conflict of interest resulting in such arrangements does not arise.

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

Currently, MVM has one client with a performance fee arrangement. Generally, although no existing clients have such an arrangement, for clients with accounts in excess of \$5 million, MVM does allow for such fee structures. In such instances, in lieu of the base fee schedule, client and MVM may mutually agree to enter into an advisory agreement which entails a minimum fee (which is less than the corresponding Base Fee Schedule amount) plus an additional performance component. Such performance component will be based on performance periods of at least one year and dependent on the account's performance (calculated using GIPS Presentation Standards) relative to an agreed benchmark index. For the Conservative Income strategy, MVM has one account which utilizes an alternative structure where MVM's fee is reduced in quarters where the annualized return would not exceed an absolute threshold of 1% per annum.

Clients should be aware that performance fee arrangements can provide a conflict of interest to the investment adviser to the extent the adviser might make greater fees by favoring clients with such arrangements. In MVM's case, this risk is mitigated by the firm's trade allocation policies which require pro rata treatment for all accounts, regardless of fee structure.

Item 7 - Types of Clients

MVM manages accounts for a variety of clients, including high net worth individuals, trusts, foundations, endowments and pension funds. Current account minimums are \$500,000 for the firm's equity and income portfolios and \$3 million for its other investment management services.

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

Equity Portfolios:

MVM provides investment advisory services in the form of actively managing discretionary accounts. Clients select one of the firm's long-term, value-based portfolios for investing in publicly-traded stocks: Core Value, Select Value, Small-Cap Value, Opportunity and Tactical Value. These are in the form of separately managed accounts, not pooled investment vehicles.

Core Value and Select Value, both all-cap strategies, differ primarily in risk tolerance, level of sector diversification and number of stocks in each portfolio. Small-Cap Value is similar to Select Value except for a limitation on the size of the companies as measured by market capitalization. It differs also in the number of stocks held. The more recently introduced Opportunity strategy is an all cap, absolute return strategy which is intended to be even more concentrated and offer greater flexibility of cash levels. The Tactical Value strategy is also an all-cap, absolute return strategy with cash flexibility. It is less concentrated than Opportunity, but more so than Select Value. As a complement to its highest conviction

stocks it also invests in dividend-oriented stocks and is free to devote a small proportion to non-equity opportunities which we deem of value.

Stock overlap exists among all equity products. Within each of the strategies, all accounts are managed alike, except with respect to any client-specific restrictions or tax timing considerations. Also, client weightings in specific stocks may differ based on MVM's judgment of the relative merits of each stock at the time the account was initiated.

We follow a long-term value approach to investing. We invest primarily in stocks that are out-of-favor, enjoy quality underlying assets and are either undergoing change or offer attractive free cash flow. We believe concentrated, yet prudently diversified portfolios provide the best way to realize superior risk-adjusted returns. We believe our fundamental analysis and strong valuation skills provide our distinctive edge in stock selection and that our strict buy and sell disciplines mitigate risk.

We seek stocks which exhibit most or all of the following:

- **Out of Favor Bias** - We believe looking where others don't represents the most fertile ground to unearth superior investments.
- **Quality Assets Essential** - We invest in companies with at least solid, if not top quality assets. Top quality assets can facilitate premium valuations. Solid assets provide assurance that a buyer can be found in difficult situations.
- **Change Can Represent Opportunity** - Management changes, corporate changes (e.g. asset sales, share buybacks, spin-offs) and industry changes (e.g. deregulation) often provide opportunity.
- **Free Cash Flow** - allows flexibility for managements to fix troubled businesses and also to capitalize on healthy businesses through reinvestment, acquisitions or share buybacks.
- **Managements Matter and Fundamental Research is Critical** - MVM conducts an in-depth review of not only a company's financial and competitive outlook, but also its management and its strategic alternatives.
- **Tailored Valuation** - We bring our combined investment banking, equity research and portfolio management experience to bear, using private market value for businesses that might be sold and favoring free cash flow and earnings metrics for businesses likely to remain publicly traded.
- **Conviction** - increases the odds of successful investing. We demonstrate conviction by investing alongside our clients and by running concentrated portfolios.
- **Discipline** - enhances returns and mitigates risk. Our buy discipline includes patience in waiting for bad news to be well-discounted, maximum stock weightings and careful diversification as to both industry sectors and balance sheet quality. Our sell discipline is at least as critical and includes unanticipated management change, material long-term deterioration in fundamentals or a stock's substantial decline relative to the market.

Ideas are generally derived in one of two ways. In the first method, we monitor the business press and canvass industry and Wall Street contacts for stocks with negative headlines, undergoing change as well as for insider purchases. The second come from stocks the firm's portfolio managers have either owned or extensively researched in the past.

Bottom-up elements are critical to our approach. Stocks must meet our prerequisites for being out-of-favor and possessing solid to top quality assets and are typically undergoing change and/or have attractive free cash flow. Once an idea meets such criteria, initial research consists of assessing potential valuation,

surveying company information (10K, 10Q's, proxy, website and webcasts) and sell-side research and often, an overview call with company investor relations.

Assuming further research is deemed warranted, MVM conducts a three-fold, in-depth analysis assessing company financials, strategic business position and management. Price targets are then set using a combination of (1) price to normalized earnings (2) free cash flow yield and (3) discount to private market value. Buy points are then set factoring in relative risk.

Risks

As concentrated portfolios of equity securities, all of MVM's equity products face the risks of permanent loss of capital as well as temporary loss due to volatility of investment returns. Also, fundamental analysis does not attempt to anticipate market movements. This presents a risk as the price of the security may move up or down with the overall market regardless of the economic or financial factors considered by MVM in evaluating a stock. The Opportunity and Tactical Value portfolios also could be construed to have elements of market timing related to the flexibility of cash levels. While this flexibility could preserve capital in periods of market declines, should the strategies have high cash levels when markets are moving higher the strategies, all else equal, could lag equity market returns.

Income Portfolios:

The firm has recently begun offering the Conservative Income strategy. Like the firm's equity strategies it provides investment advisory services via active discretionary management utilizing separately managed account structures. Over long periods, it seeks to deliver returns above those for money market and short-term bond funds with only moderate additional risk. The strategy primarily invests in money market funds and other cash vehicles, government, mortgage and corporate bond mutual funds and ETF's. It is also free to invest up to 10% of assets in preferred stocks and dividend-oriented common stocks. Up to 10% of assets may also be invested in mutual funds or ETF's focused on foreign fixed income markets. Direct bond investments are permissible, although unlikely due to generally higher transaction costs.

The choice for most of the strategy's investments is predicated on the firm's view of interest rates and macroeconomic factors. We primarily form our views from a combination of economic information gleaned via our fundamental stock research and our interpretations of various analyses of government statistics and the business press available in the public domain. The stock allocations all result from work done in the normal course for our equity strategies.

Risks

With only a small proportion invested in equities, our income portfolios generally entail only modest equity risk and we note that fixed income investments are inherently less risky than equity securities. Risk on the predominant fixed income proportion of our income portfolios relates mostly to interest rate risk and the duration and convexity of our investments. Both of these are measures of interest rate sensitivity. Duration generally reflects weighted average maturities. Longer duration entails greater sensitivity to interest rates. When interest rates rise, fixed income prices fall and vice versa. Our strategy will generally have more duration or interest sensitivity than money market funds, but less than long-term bond funds. Convexity relates to how duration changes as interest rates change and we often take this into account. For instance, when we expect interest rates to rise, we may be inclined to choose investments with negative convexity such as mortgages. Credit risk, which reflects the risk that a borrower may default on its payments, exists in our strategy, but is mitigated by both the diversification inherent in using mutual funds or ETF's more so than direct bond purchases and also by our typically shorter than average duration. The income portfolios are also subject to currency risk for the portion of the portfolio invested in foreign vehicles. For such investments, the interest rate we expect to receive could be translated back to U.S. dollars at a lower or higher amount depending on shifts in foreign exchange rates.

Other Investment Management Services

For MVM's Other Investment Management Services practice, the firm develops appropriate investment and asset class allocations for certain individuals typically utilizing a combination of MVM's equity portfolios as well as mutual funds accessible via MVM's relationship with Schwab Institutional. All of this is tailored to the client's particular goals and objectives, risk tolerance, constraints, tax situation and liquidity needs. Given the more diversified nature of the investments beyond MVM's concentrated equity portfolios (e.g. fixed income mutual funds and generally more diversified equity funds), risk of loss and volatility of investment returns is less than for the company's primary equity strategies, but such risks still remain.

Item 9 - Disciplinary Information

Neither the firm nor its principals and employees have been subject to any disciplinary actions nor is the firm aware of any that might be in process.

Furthermore, MVM does not have related persons nor entities involved in the following:

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships.

In relation to its equity portfolios, for which MVM provides direct portfolio management and which constitute over 90% of the firm's assets under management, MVM does not recommend other investment advisers nor does it receive compensation directly or indirectly which could create a material conflict of interest. However, the firm, for its other investment management services, does recommend and purchase for its clients certain no-load and low-load mutual funds which are managed by unrelated investment advisers. MVM does not receive compensation from the mutual fund companies as it pertains to the mutual fund recommendations.

The firm also is unaware of any other business relationships that would cause a material conflict of interest.

Item 10 - Other Financial Industry Activities and Affiliations

MVM has no other financial activities or affiliations.

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

McClain Value Management, LLC has adopted a Code of Ethics that is designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 ("Advisers Act"). Upon request, MVM will provide this information directly to the client or prospective client.

The Code establishes rules of conduct for all employees of McClain Value Management, LLC and is designed to, among other things; govern personal securities trading activities in the accounts of employees. The Code is based upon the principle that McClain Value Management, LLC and its employees owe a fiduciary duty to McClain Value Management, LLC's clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

The Code is designed to ensure that the high ethical standards long maintained by McClain Value Management, LLC continue to be applied. The purpose of the Code is to preclude activities which may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. The excellent name and reputation of our firm continues to be a direct reflection of the conduct of each employee.

Most employee trading is conducted via employee accounts set up within one or more of the firm's four equity strategies and thus employees receive pro rata trade allocations no more or less favorable than any other client. See "Trade Allocation" in Item 12 for further discussion. For employee trading outside of the firm's equity portfolios, current policies and procedures prohibit employee trades while the same position is being transacted for client accounts and require advance approval of the firm's chief compliance officer.

MVM does not participate in Principal trading or Agency Cross Trades.

Item 12 - Brokerage Practices

MVM takes brokerage discretion on behalf of its clients. Since September 2010, MVM has conducted the majority of its trading via an outsourcing relationship with an independent trading firm, now known as Tourmaline Partners, LLC. MVM believes that Tourmaline's competitive commissions, breadth and depth of trading expertise, efficiency and effectiveness of its trading and allocation systems as well as its ability to access independent research are key factors supporting MVM's duty to achieve best execution. In certain instances, per share commission rates under the outsourcing arrangement may be higher than per share rates available elsewhere. Any research received is used to service all of MVM's accounts.

In addition, MVM retains the capability to trade via Schwab and (prior to September 2010) conducted all of their trading in this manner. MVM believes that Schwab's competitive commissions, the efficiency and effectiveness of its trading and allocation platform and the responsiveness of its service and trading teams are some of the key factors satisfying MVM's duty to achieve best execution.

There are certain ancillary economic benefits McClain Value Management receives as a result of its relationships with both Tourmaline and the Schwab Institutional platform. In Tourmaline's case, these primarily relate to their allocation systems as well as their ability to access independent research. For Schwab, these include a trading and allocation platform, the client service benefits and technological support of its service teams and, as it relates to our other investment management services business, preferential access for our clients to its mutual fund line-up.

Soft Dollars

Another aspect of MVM's brokerage practices concerns the use of soft dollars. When MVM uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, MVM receives a benefit because we do not have to produce or pay for the research, products or services. Soft dollar research services are used for the benefit of all clients.

Prior to September 2010, the firm had no facility to utilize soft dollars and did not do so. Beginning with the Tourmaline relationship, the firm set up the capability to utilize soft dollars. To date, MVM has utilized the arrangement only to pay for research report services and to pay a select number of established brokers for their research MVM deems of value. In all such instances, in accordance with the firm's soft dollar policies, MVM ensures that only approved research services or products are being obtained on a soft dollar basis and that any soft dollar arrangements are consistent with the safe harbors established by Section 28(e) of the Securities Exchange Act of 1934 and are only allowed after appropriate reviews and approvals.

Note that soft dollar arrangements can cause conflicts of interest in that they may give incentives for managers to disregard their best execution obligations when directing orders to obtain client commission services as well as to trade client securities inappropriately in order to earn credits for client commission services.

Directed Brokerage

MVM does not routinely offer clients the option to direct brokerage. However, from time to time a client may request MVM to make "best efforts" to trade with certain brokerage firms or types of brokerage firms such as those deemed "emerging" (often minority-owned) or those residing in the state in which the client is domiciled. When these instances occur, MVM makes every effort to meet these requests.

A client who requests MVM to direct brokerage should understand that MVM may be unable to achieve most favorable execution of client transactions. In addition, directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because MVM may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

Aggregating Purchase and Sales of Equity Securities

It is MVM's practice to aggregate purchase or sale of equity securities for various client accounts. Aggregating trading has the benefit of lower average commissions per trade.

Trade Allocations

Trades are allocated to client accounts on a pro rata basis. In limited circumstances, such as when only a small proportion of an order is filled on a given day and full pro rata treatment would be impractical, orders may be allocated pro rata to either large or small accounts on an unbiased basis.

In certain limited circumstances, exceptions to pro rata treatment may be made. Instances when this can occur include the following:

1. Account Size / Nominal Order Fills – when only a small portion of a full order can be completed for the day (typically due to price limits set by the portfolio manager or insufficient trading volume for the security), the trade will be allocated to either large accounts or small accounts on an unbiased, rotating basis.

2. **Client Investment Restrictions and Preferences** – Restrictions arise on trades in securities in which (1) inherent conflicts exist such as an individual who serves as a director, executive or consultant for a specific company or industry or (2) client-imposed preferences limit ownership, such as drugs, arms, tobacco, alcohol, etc. In such instances, the affected clients receive zero allocation of the restricted security. Instead, the Adviser either manages the affected account with a higher cash balance, purchases slightly higher weightings of other portfolio securities to bring cash levels into line with otherwise similar accounts, or a combination of the two.
3. **Client Cash Levels** – in general, Adviser has discretion on what cash levels to hold in client accounts. However, certain clients request that account assets be invested at all times at certain minimum cash levels (often 5%). In instances where this threshold would otherwise be breached, Adviser will purchase for affected accounts additional amounts of existing holdings or an entirely new holding in order to bring cash levels below the threshold. This process is reversed when cash levels would otherwise go negative in affected accounts. In addition, some clients make modest distributions (typically 1% - 4% of account value) for expenses or to fund endowment grants. In these instances, it often is not cost-effective to rebalance weightings in the affected account, which inherently leaves the account with lower cash levels than unaffected accounts. In turn, this means that the affected account may not have sufficient cash to purchase the same weighting in a new security as unaffected accounts.
4. **Tax-management effects** – for taxable accounts, considerations are made to mitigate or defer material gains and/or to realize losses. This is done as an accommodation, usually near year-end, when in the Adviser's judgment and/or at client's request, the tax advantages outweigh any potential disadvantages of an affected taxable account being temporarily out of alignment with unaffected portfolios. In such instances, trades are made (e.g. realizing a loss) or not made (e.g. deferring a gain) in affected accounts differently than for unaffected accounts. Affected accounts are usually rebalanced shortly into the new tax year.

Item 13 - Review of Accounts

The Managing Partners perform reviews of all accounts. Equity strategy portfolios are reviewed at least weekly, more when appropriate, triggered by completion of new or additional research or changes in the price of individual securities, among other factors. Trades, if any, are reconciled daily by the portfolio administrator.

Accounts related to the firm's other investment management services are monitored continuously and formally reviewed at least annually, more when mutually agreed upon.

For equity strategy accounts, statements and portfolio comments are provided quarterly. Accounts related to the firm's other investment management services receive statements quarterly. Clients also receive monthly account statements via Charles Schwab (or an alternative mutually agreed upon broker/dealer).

Item 14 - Client Referrals and Other Compensation

MVM currently utilizes a third party marketer to assist in generating new clients. The third party marketer's compensation is tied to fees generated by clients brought in by such marketer.

Item 15 – Custody

MVM does not offer custody services for client accounts. However, according to SEC guidelines, the firm is deemed to have custody when we directly deduct fees from client accounts. In all instances, MVM recommends that clients review any statements received from MVM to ensure that they reconcile with the client's custodial statements.

Item 16 - Investment Discretion

MVM offers discretionary investment services. However, under certain circumstances, the client may limit the types of stocks MVM may purchase, such as a socially responsible account mandate. Additionally, certain clients may restrict us from owning stock on their behalf of a company for which they are employed or otherwise deemed a related party.

Item 17 - Voting Client Securities

For those clients who authorized, McClain Value Management, LLC, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting. Our policy includes making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records.

Voting Guidelines

- In the absence of specific voting guidelines from the client, McClain Value Management, LLC will vote proxies in the best interests of each particular client. McClain Value Management, LLC's policy is to vote all proxies from a specific issuer the same way for each client absent qualifying restrictions from a client. Clients are permitted to place reasonable restrictions on McClain Value Management, LLC's voting authority in the same manner that they may place such restrictions on the actual selection of account securities.
- McClain Value Management, LLC will generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors absent conflicts of interest raised by an auditor's non-audit services.
- McClain Value Management, LLC will generally vote against proposals that cause board members to become entrenched or cause unequal voting rights.
- Notwithstanding the above, in reviewing proposals, McClain Value Management, LLC will further consider the opinion of management and the effect on management, and the effect on shareholder value and the issuer's business practices.
- Clients may upon request receive copies of proxy policies and the actual voting record.
- Clients may vote their own proxies via incorporation of such retained authority within the advisory agreement or subsequently, by written request to MVM.

McClain Value Management, LLC will identify any conflicts that exist between the interests of the adviser and the client by reviewing the relationship of McClain Value Management, LLC with the issuer of each security to determine if McClain Value Management, LLC or any of its employees has any financial, business or personal relationship with the issuer.

If a material conflict of interest exists, our Compliance Officer will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy or receiving an independent third party voting recommendation. McClain Value Management, LLC will maintain a record of the voting resolution of any conflict of interest.

Item 18 - Financial Information

MVM does not fall under the guidelines which require submission of financial information.