

# Munros Capital Management, LLC

21 East Long Lake Road  
Suite 200  
Bloomfield Hills, MI 48304

Phone: 248-647-5990  
Fax: 248-647-0537

[www.munroscapital.com](http://www.munroscapital.com)

March 28, 2012

*This disclosure brochure provides clients with information about the qualifications and business practices of Munros Capital Management, LLC an independent investment advisory firm registered with the United States Securities and Exchange Commission ("SEC"). It also describes the services Munros Capital Management, LLC provides as well as background information on those individuals who provide investment advisory services on behalf of Munros Capital Management, LLC. Please contact Munros Capital Management, LLC, at 248-647-5990 if you have any questions about the contents of this disclosure brochure.*

*The information in this disclosure brochure has not been approved or verified by the SEC or by any state securities authority. Registration with the SEC does not imply that Munros Capital Management, LLC or any individual providing investment advisory services on behalf of Munros Capital Management, LLC possess a certain level of skill or training. Additional information about Munros Capital Management, LLC is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Munros Capital Management, LLC is 143069.*

# MUNROS CAPITAL MANAGEMENT, LLC

---

## Table of Contents

---

<b>ADVISORY BUSINESS .....</b>	<b>1</b>
Company	
Investment Management Services	
Investment Team	
Assets Under Management	
<b>FEES AND COMPENSATION .....</b>	<b>3</b>
Investment Management Services Fees	
Important Additional Information	
<b>PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>4</b>
<b>TYPES OF CLIENTS .....</b>	<b>4</b>
Engaging the Services of Munros Capital Management, LLC	
Conditions for Managing Accounts	
<b>METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>4</b>
<b>DISCIPLINARY INFORMATION .....</b>	<b>10</b>
<b>OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....</b>	<b>10</b>
<b>CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>11</b>
Code of Ethics	
Prohibition on Use of Insider Information	
Participation or Interest in Client Transactions	
<b>BROKERAGE PRACTICES .....</b>	<b>12</b>
Brokerage Selection	
Directed Brokerage	
Trade Aggregation/Allocation	
<b>REVIEW OF ACCOUNTS .....</b>	<b>15</b>

Table of Contents

---

<b>CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>16</b>
<b>CUSTODY .....</b>	<b>16</b>
<b>INVESTMENT DISCRETION .....</b>	<b>17</b>
<b>VOTING CLIENT SECURITIES .....</b>	<b>17</b>
Proxy Voting	
Class Actions	
<b>FINANCIAL INFORMATION .....</b>	<b>18</b>
Payment of Fees	
Financial Condition	
Bankruptcy	
<b>PRIVACY NOTICE .....</b>	<b>18</b>

**MATERIAL CHANGES**

The following material changes have occurred since October 5, 2011, the date when Munros Capital Management, LLC last updated this Form ADV Part 2A disclosure statement:

**ADVISORY BUSINESS**

Munros Capital Management, LLC no longer provides investment management services for the following private investment funds organized as pooled investment vehicles: (i) Munros European Small Cap Fund I, LP and (ii) the Munros European Micro Cap Fund I, LP. These funds have been liquidated.

## **ADVISORY BUSINESS**

### **Company**

Munros Capital Management, LLC is a privately-held Michigan limited liability company that has been providing investment advisory services as an SEC-registered investment adviser since 2007. Throughout this disclosure brochure, the company is referred to as “Munros”.

### Ownership

The principal owners of Munros are Steward Capital Partners, LLC and Munros Capital Management, LLP.

The principal owner of Steward Capital Partners, LLC is Anmar K. Sarafa, CFA. The principal owners of Munros Capital Management, LLP are Neil Dunn, Andrew Millar, William Murray, Allaart Horst and John Van Kooten.

### **Investment Management Services**

Munros provide investment management services to institutional investors. Munros’ investment management services include the continuous management and discretionary investment of client portfolios. Munros management is based on the specific needs and objectives of each client.

Munros will construct a portfolio comprised solely of European small cap companies. Munros will maintain this exclusive focus notwithstanding the capacity restraint implications.

Clients may impose restrictions on investing in certain securities or types of securities in their accounts. At all times, clients retain individual ownership of all securities.

### **Investment Management Team**

#### Neil Dunn

Neil Dunn is the joint managing partner of Munros and was the founding partner of Munros’ parent company, Munros Capital Management, LLP. Mr. Dunn also founded what is now known as Kempen Capital Management (UK) Ltd. He set up the underlying partnership in 1989 and subsequently negotiated its sale to Kempen & Co N.V. in 1997. Neil was appointed as Managing Director of the resulting company. He resigned from his position with Kempen in February 2006. For more than 30 years, Neil Dunn has been working in the investment field at Standard Life Assurance Company, Ivory & Sime, PLC, and Kempen Capital Management (UK) Ltd. Prior to founding Kempen Capital Management (UK) Ltd., he specialized in the management of small company portfolios throughout the world, including Japan, South East Asia, and the U.S. Since 1994, however, he has focused entirely upon European markets. Neil Dunn has in the past held a number of outside

directorships, mostly as a non-executive director to funds managed by some of the largest United Kingdom institutions.

#### Millar Law

Millar Law acts as Head of European SmallCaps for Munros Capital Management, LLP, Munros' parent company, and has over 30 years experience managing European equities. Most recently, Millar was a fund manager at Kempen Capital Management (UK) Ltd, where he focused on European Micro & SmallCap equities. Prior to Kempen, he was the Director of European equities for ISIS Asset Management in Edinburgh. Millar Law began his career in 1973 with Ivory and Sime plc and was Head of UK Investments when he departed in 1983. He has also held positions including Director and Head of European Investments, Chief Executive Officer and Head of International Equities with other major European money management firms.

#### John van Kooten

Prior to joining Munros Capital Management, LLP, Munros' parent company, John van Kooten spent all of his professional life working for Kempen & Co N.V. He joined Kempen in 1987 and was initially employed as a sales/trader in the stock broking division. Thereafter, John moved to the Research Department and worked as a specialist in small company research. In 1998 and until January 2006, John moved to Kempen Capital Management (UK) Ltd, where he principally covered Europe's smaller company markets with a particular focus on MicoCaps.

#### Bill Murray

Bill Murray is Head of Munros Capital Management, LLP's SRI European SmallCaps. After graduating from Edinburgh University (B.Sc. Economics and LL.B. Law Degrees), he joined Peat Marwick Mitchell (now KPMG) where he qualified as a Chartered Accountant in 1980. After having worked for McNeill Pearson Ltd (Corporate Finance for small companies) and Edinburgh Fund Managers (Investment Manager), he joined Walter Scott & Partners in 1983 and he was elected a Director in 1987. At Walter Scott & Partners, Bill Murray had exposure in all major investment areas. He was employed by Kempen Capital Management (UK) from July 1999 to October 2006.

### **Assets Under Management**

As of December 31, 2011, the total amount of client assets managed by Munros is approximately \$44,849,979.00. All client assets are managed on a discretionary basis.

## FEES AND COMPENSATION

### Investment Management Services

Advisory fees for Investment Management Services are agreed upon at the time of engagement and are stipulated in the client investment management agreement. Fees are charged quarterly (unless otherwise agreed upon) in advance and are based upon the market value of the portfolio, set forth by the custodian, as of the last market day of the relevant calendar month. Where services are initiated at any time other than the beginning of the calendar quarter, advisory fees shall be prorated.

Advisory fees are as follows:

Portfolio Value	Maximum Annual Fee (%)
Up to \$50 million	1.00%
Over \$50 million	0.95%

The advisory fee schedule and account size may be modified due to a variety of factors at the sole discretion Munros. Fees may be paid directly by the client or payment of fees may be made through directly debiting the client account by the qualified custodian holding the client's funds and securities.

### Important Additional Information

#### Fee Only

Munros is compensated solely by fees paid by its clients and does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product).

#### Fees Negotiable

Munros retains the right to modify its fee schedule in its sole and absolute discretion, on a client-by-client basis based on the size, complexity and nature of the advisory services provided. All fees will be agreed upon in writing by the client prior to being charged.

#### Direct Debiting of Client Accounts

In order for Munros' advisory fees to be directly debited from a client's account, the client must provide written authorization permitting Munros to bill the custodian. In addition, the account must be held by a qualified custodian and the qualified custodian must agree to send to the client an account statement on at least a quarterly basis. The account statement must indicate all amounts disbursed from the account including the amount of advisory fees paid directly to Munros. It is the client's responsibility to verify the accuracy of the fee calculation as the account custodian will not determine whether the fee is properly calculated.

### Termination of Client Relationship

Termination provisions in a client agreement are mutually agreed upon by the parties. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

### Trading and Other Costs

All fees paid to Munros for investment advisory services are separate and distinct from transaction fees charged by broker dealers associated with the purchase and sale of equity securities and fixed-income securities. In addition, fees do not include the services of any co-fiduciaries, accountants, broker dealers or attorneys. Please see the section entitled “Brokerage Practices” on page 12 of this disclosure brochure for additional information on brokerage and other transaction costs.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Munros does accept performance-based fees (*e.g.*, fees based on a share of capital gains on or capital appreciated of the assets in a client’s account).

## **TYPES OF CLIENTS**

Munros provides investment advisory services exclusively to institutional investors.

### **Engaging the Services of Munros**

All clients wishing to engage Munros for investment advisory services must first complete the applicable advisory agreement. The agreement describes the services and responsibilities of Munros to the client. It also outlines Munros fee in detail. In addition, clients must complete certain broker-dealer/custodial documentation. Upon completion of these documents, Munros will be considered engaged by the client.

### **Conditions for Managing Accounts**

Munros requires a minimum account size of \$5,000,000.00. It is in Munros’ discretion to accept portfolios that do not meet this minimum criteria. Munros reserves the right to decline services to an investor, for any reason, which may be result of due diligence undertaken by Munros.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Munros’ investment philosophy is based on a “bottom up” approach to portfolio construction founded on fundamental analysis.



At the time of purchase, the market capitalization of a company eligible for inclusion in a client's portfolio will not exceed the highest market capitalization of any company included in the benchmark index, the HSBC Smaller European Companies Index (this adjusted index covers about 1350 European companies in sixteen countries).

The essential characteristics of the investment process used by Munros are designed to filter the population of companies available, down to the number of companies which can genuinely be researched in sufficient depth, and thereafter, filter further to produce that number of stocks required to fulfill the requirements of the funds managed. It is an active management process driven by fundamental analysis and it is judgmental.

Quantitative portfolio techniques are not used, as Munros' believes them to be of limited applicability in the area of small cap management.

### Stage 1. Screening

The layout of the investment process can be summarized essentially by saying that Munros begins from 8,000 potential companies in which an investment can be made. These 8,000 companies in the total population divides into approximately 5,000, which Munros' believes, are simply not of investment grade with the balance being potentially of interest.

For the balance of the approximate 3,000 companies, files are maintained in Munros' office and the portfolio management team manually screens these. This screening process has a number of constituent parts, but in particular Munros is at this stage focusing upon growth, valuation, self-sustaining growth rates as defined by internal cash flow generation and enterprise standards. This last criterion is a simple identification of whether the internal rates of return exhibit the possibility of being attractive.

Following the screening process Munros hopes to reduce the available opportunities down to that number which can be adequately researched by the available resources. This, therefore, is a dynamic number depending on the size and strength of the investment management team, but is taken internally to roughly equate with the number of companies with whom direct meetings are held in any annual period. Company visits are carried out in a rigorous and disciplined manner and this is a key component of Munros' research process. For screening purposes Munros uses primarily third party material.

The screening process is structured as follows:

- \* Status check
  - Size
  - Liquidity
  - Free float
  - Remit conformity

- Information quality
- \* Valuation check
  - PER/PEG
  - Apparent growth rate
- \* Industry characteristics
  - Growth
  - Cyclicity
- \* Enterprise standards
  - ROCE > Long term yield plus 1.75% risk premium
  - Cash generation

## Stage 2.

The research process itself, which should take Munros from the manageable research base to the number of companies required to satisfy portfolio needs, has four key components:

1. An assessment of managerial qualities carried out by company visiting.
2. A straightforward valuation analysis.
3. A business analysis based upon the Porters 5 Force business model and can best be described as a way of identifying the balance of power within a given industry, which identifies both the opportunities and the risks facing an individual company.
4. A financial analysis, which is spreadsheet, based.

Munros does not claim to have discovered any unique ratio or unique equation, which identifies mathematically the best companies. Indeed, it is Munros' belief that the introduction of asset productivity ratios and internal cash generation provide the most accurate guideposts as to the quality of future growth.

Individual portfolio managers carry all of the above work out. The proceeds of the research process are then summarized for discussion amongst the whole team and for each company researched a portfolio manager is required to state price targets, an assessment of risk and a time horizon for the achievement of the set target. In general, our performance is to adopt a 2-3 year time horizon with the chosen point on that range being dependent upon overall market conditions and the fundamental characteristics of the business being analyzed.

With a bottom-up investment process the benchmark only plays a role in the portfolio construction phase. This role is threesome: On risk parameters (tracking error) and on country and sector spread. Due to Munros' focused portfolios with 45 to 50 stocks, the benchmark does not play a role on the security level.

With regard to risk parameters, the limits or targets set by the client are at all times respected. As to the geographic spread of the portfolio, Munros' normal absolute limits are no country should be over weighted beyond the extent of 10 percentage points above the relevant benchmark index component. There are no minimum restrictions to which Munros' operates. Furthermore, Munros' measures the

sector/industry weightings of the portfolio against the sector/industry weightings of the relevant benchmark index for risk control purposes. A modified sector split of the portfolio is reviewed in total (e.g., rather than looking at the portfolio through the given sector division of benchmark indices, the portfolio is rather split by sectors created as a result of the underlying investment themes). In this way it is hoped that the true bias within the portfolio can be identified and assessed.

### Investment Criteria

Munros' believes that EPS growth is the basic driver of Europe's small company markets and that PER is the most common valuation criterion on which stock prices are formulated. Munros' research process is, therefore, designed to emphasize these aspects. This, however, is a very short summary. Essentially what Munros is seeking to identify is earnings growth which is not reflected in current valuations but only if other criteria are also evident.

The most important of these would be:

- *Quality of Earnings Growth.* By this Munros' means that simple growth of earnings alone is not sufficient. To achieve the best returns Munros' view is that external driven earnings growth from expanding markets/market share must be adequately supplemented by internal productivity gains. Thus internal rates of return are prominent in Munros' financial analysis.
- *Cash Flow Analysis.* Earnings or earnings growth in the absence of comparable strengths on free cash generation will ultimately produce a below average investment. Earnings patterns must therefore be, at least, fully reflected in cash generation. The key here is the rate at which a company can sustain growth from purely internal sources. Every time the reported growth exceeds the ability to generate cash, outside financing is required which is invariably a leakage in terms of shareholder returns.
- *Balance Sheet Strength.* Different businesses can sustain different balance sheet strengths and weaknesses. The balance sheets of all portfolio companies must accord with the basic business analysis and the risks that are built into the future outlook be they competitive or financial.

### Portfolio Construction

The portfolio is essentially constructed on pure bottom-up criteria but Munros recognizes that 100% bottom-up portfolio construction implies an absence of risk control. As this is not the case Munros ascribes portfolio construction as including 90% bottom-up i.e. stock selection and 10% top down. In principal, for European small caps, Munros' manages portfolios with 45 to 50 stocks which will enter the portfolio more or less on equal weight, i.e. 2% of the portfolio.

Apart from what Munros has described above, Munros makes greater use of the benchmark index data to achieve enhanced risk control and to allow the

development of true hurdle rates when considering the inclusion or retention of stocks in an existing portfolio. In respect of small caps, the normal benchmark is such a wide base, containing as it does some 1350 constituent companies, that it is difficult to establish exactly what bottom up index expectations genuinely are. This, in turn, hampers the risk return decisions being made for individual researched stocks.

This shortcoming is solved by the internal use of the Leaders Index, as produced by HSBC. In essence, this is a sub-section of the main Index. It contains only 135 to 140 stocks, but tracks the main Index almost precisely. It is instituted that full research had to be maintained at all times of all constituents of the Leaders Index up to and including the establishment of price targets. Internally, the real time analysis aggregating these bottom up predictions into the expected shape of the overall market is available for all portfolio managers. This makes transparent the risks and rewards faced by investing in stocks from the research process in relation to the market in general.

As a control the Index analysis is summarized in terms of its deviation from the expected mean in terms of normality of the distribution of future price changes and the standard deviation of anticipated changes in the year ahead. These controls are instituted to ensure the consistency of the underlying bottom up predictions. It must be noted that, when formulating a price target for the Leaders Index, portfolio managers are asked to assume a 12-month time period and a zero overall movement in the market. It is effectively, therefore, a relative price target and important that the sum of the index predictions is close to zero.

An online system has been developed whereby for both mid caps and small caps there is real-time information derived from our bottom up process detailing the anticipated movement in the market as a whole, the movement in sectors and of paramount importance the movement in all individual stocks included in the benchmarks.

The benefits derived from this additional source of information are numerous:

- Greater consistency of forecasting between individual stocks and between individual managers.
- The establishment of a bottom up market prediction against which all stock forecasts can be judged.
- An ability to assess the true “active” risks being taken
- Clear establishment of risk/reward hurdle rates required for the inclusion of new stocks.
- Greater awareness of any performance leakage.
- An ex ante view of targeted information ratios and their validity.

- A more dynamic assessment of the accuracy of internal projections.

### Sell Discipline

Munros has a very disciplined sell discipline. Reasons for selling a stock can be one of the following:

- The stock has reached its target;
- The underlying fundamentals have changed;
- Replacement; and/or
- The buy decision was wrong.

The last reason becomes visible by a relative underperformance of the stock in question against its own benchmark, which is the small cap benchmark for the country in which it is quoted. If the stock underperforms this benchmark by 10%, an automatic review follows. If the stock drops to a 15% underperformance against its benchmark, the portfolio manager has two choices; buy more or sell. He/she is not allowed to just hold. If the stock drops further to 20% underperformance, the portfolio manager has the same choice again; buy more or sell. If the stock continues to drop and reaches an underperformance against its benchmark of 25%, it is in principal a stop-loss.

### Risk Management

Munros has intentionally operated without a systematic statistical risk analysis of the nature of daily multi-level tracking error calculations. This decision was reached on the basis that its applicability to small and mid cap investment is very limited, given the nature and size of the available population of companies and the construction of the benchmark indices.

For sectors, Munros operates a system of defining stocks into our own sector breakdown. These sectors do not follow the normal desegregation of published indices. As small cap investors Munros has in practice found that this is a more meaningful method of breaking down the portfolio and substantially aids portfolio management and the identification of portfolio bias. Munros' internal sector breakdowns tend to be thematic and more accurately reflect the underlying reasons for an investment having been made.

At Munros' weekly risk control meeting it is, therefore, very easy to identify precisely the bias in the portfolio and to assess the volatility and risk reward ratio of that bias. Equally, Munros is at pains to ensure that no unwanted or unintentional bias is introduced into portfolios. Whilst, therefore, Munros has no numerically quantified sector risk controls, a clear identification of the underlying investment stance is possible.

For countries Munros uses a system of over- and under weighting limits. Basically these limit the over weighting in any geographic area to being no more than 10 percentage points above the relative benchmark index. Assessments of overall portfolio risk are much more judgmental in nature and they are carried out weekly to ensure that adequate diversification is in place.

## **Risk**

### In General

Investing in securities involves risk of loss that each client should be prepared to bear. Typical investment risks include market risk typified by a drop in a security's price due to a company specific event (e.g. unsystematic risk), or general market activity (e.g., systematic risk). In addition, certain strategies may impose more risk than others. For example, investment risk with international equities also includes fluctuation in currency values, differences in accounting and economic and political instability.

### European Small Cap Companies

In comparison to the large cap markets of the USA and Europe, European smaller companies are, in general, subject to a lesser degree of market analysis on both the buy side and the sell side. As a result of this, the asset class can be thought of as being "less efficient" and thus sustains a higher level of volatility in stock prices. Additionally, it is intrinsic to the small cap markets in Europe that the liquidity characteristics of stocks are less developed than those of larger companies. Daily trading volumes are therefore also subject to volatility, requiring enhanced management.

## **DISCIPLINARY HISTORY**

Munros does not have any reportable disciplinary history.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Anmar K. Sarafa, CFA, the Joint Managing Partner and indirect owner of Munros (through his ownership of Steward Capital Partners, LLC), is also President and owner of Steward Capital Management, Inc., an SEC-registered investment adviser.

Mr. Sarafa also owns 99% of Steward Real Estate Management, LLC. Steward Real Estate Management, LLC is the General Partner of Steward Real Estate Partners Fund I, LP. The fund is a partnership focused on executing and actively managing investments in diversified real estate ventures throughout the United States, typically with equity investments ranging between \$2 million and \$15 million. Because the Steward Real Estate Partners Fund I, LP only hold physical assets and not securities, there is no conflict of interest between managing the Steward Real

Estate Partners Fund I, LP and the assets of Munros' clients.

Mr. Sarafa also owns 99% of Steward Opportunity Management, LLC. Steward Opportunity Management, LLC is the General Partner of WCERS Opportunity Fund I, LP. The fund is a partnership which has the latitude to invest in various privately held securities including, but not limited to, real estate equity, real estate mortgages, and mezzanine debt.

Neil Dunn, Millar Law, John Van Kooten and William Murray are portfolio managers and indirect owners of Munros (through Munros Capital Management, LLP). Munros Capital Management, LLP is based in Edinburgh Scotland and is regulated by the Financial Services Authority in the United Kingdom. Munros Capital Management, LLP is an independent asset management company that provides international money management services.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Munros has adopted a Code of Ethics to prevent violations of federal securities laws. The Code of Ethics is predicated on the principle that Munros and its employees owe a fiduciary duty to its clients. Accordingly, Munros expects all employees to act with honesty, integrity and professionalism and to adhere to federal securities laws. Munros and its employees are required to adhere to the Code of Ethics. At all times, Munros and its employees must (i) place client interests ahead of Munros'; (ii) engage in personal investing that is in full compliance with Munros' Code of Ethics; and (iii) avoid taking advantage of their position. Clients and prospective clients may request a copy of Munros' Code of Ethics by contacting Munros at 248-901-1532.

### **Prohibition on Use of Insider Information**

Munros has also adopted policies and procedures to prevent the misuse of "insider" information. A copy of Munros' Insider Trading policies and procedures is available to any client or prospective client upon request. For a copy of Munros' Insider Trading policies and procedures, please contact Munros at 248-901-1532.

### **Participation or Interest in Client Transactions**

Munros or individuals associated with Munros may buy, sell, or hold in their personal accounts the same securities that Munros recommends to its clients. To minimize conflicts of interest, and to maintain the fiduciary responsibility Munros has for its clients, Munros has established the following policy: An officer, manager, or employee of Munros shall not buy or sell securities for a personal portfolio when the decision to purchase is derived by reason of their employment with Munros, unless the information is also available to the investing public as a whole. No person associated with Munros shall prefer his or her own interest to that of any client.

Personal trades in securities being purchased or sold for clients may only be made simultaneously with or after trades are made for clients. Munros personnel may not anticipate trades to be placed for clients.

## **BROKERAGE PRACTICES**

### **Best Execution**

Best execution has been defined by the SEC as the “execution of securities transactions for clients in such a manner that the client’s total cost or proceeds in each transaction is the most favorable under the circumstances.” The best execution responsibility applies to the circumstances of each particular transaction and an investment adviser must consider the full range and quality of a broker-dealer’s services, including, among other things, execution capability, commission rates, the value of any research, financial responsibility and responsiveness.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while Munros will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

### **Broker Analysis**

Munros evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions. These include the broker-dealer’s trading costs, efficiency of execution and error resolution, financial strength and stability, capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinion pertaining to trading and prior performance in serving Munros.

Also in consideration is such broker-dealers’ provision or payment of the costs of research and other investment management-related services (the provisional payment of such costs by brokers are referred to as payment made by “soft dollars”, as further discussed in the “Research/Soft Dollars Benefits” section immediately below). Accordingly, if Munros determines in good faith that the amount of trading costs charged by a broker-dealer is reasonable in relation to the value of the brokerage and research or investment management-related services provided by such broker, the client may pay trading costs to such broker in an amount greater than the amount another broker might charge.

Munros’ Chief Investment Officer is responsible for continuously monitoring and evaluating the performance and execution capabilities of brokers that transact



orders for our client accounts to ensure consistent quality executions. In addition, Munros periodically reviews its transaction costs in light of current market circumstances and other relevant information.

### **Research/Soft Dollar Benefits**

As stated above, Munros may consider a number of factors when selecting a broker or dealer to effect a transaction, including its financial strength and stability, the efficiency with which the transaction will be effected, and the value of research products and services that a broker may lawfully provide to assist Munros in the exercise of its investment discretion. Munros is authorized to pay a broker, who provides research services commissions that are higher than another broker might have charged, but which ordinarily will not be higher than the generally prevailing competitive rate, if Munros determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided. The services acquired by Munros in this manner are regarded as useful generally to all of the accounts managed by Munros. However, each specific research (soft dollar) transaction may not directly benefit the account for which the transaction is made. Consequently, Munros clients whose transactions are effected with or through research service-providing broker-dealers may be deemed to be providing a benefit to Munros' other clients whose transactions are effected with or through other broker-dealers that the client may have directed Munros to use.

While as a fiduciary Munros endeavors to act in its clients' best interests, Munros' recommendation that clients maintain their assets in accounts with these broker-dealers may be based in part on the benefit to Munros of the availability of some of the foregoing products and services and not solely on the nature cost or quality of custody and brokerage provided by these broker-dealers which may create a conflict of interest.

### **Brokerage Selection**

#### **Munros Discretion**

For those clients that grant Munros discretionary brokerage authority, Munros is authorized by the client to select the broker or dealer to be used and to determine the commission rate paid. Any limitations on Munros' discretionary brokerage services by the client shall be made in writing to Munros. Any amendments to these restrictions shall be made in writing to Munros and such amendments shall take effect upon receipt of such amendments.

Please see the disclosures in the "Best Execution" and "Broker Analysis" sections beginning on page 12 of this disclosure brochure for additional information on the criteria used by Munros to select client brokerage.

### Munros Directed Brokerage

When Munros does not have the discretionary authority to determine the broker-dealer to be used, clients in need of brokerage will have a broker-dealer recommended to them. The determination of which broker-dealer to recommend to a client will depend on which broker-dealer offers a range of services that is better for the client. Please see the disclosures in the “Best Execution” and “Broker Analysis” sections beginning on page 12 of this disclosure brochure for additional information on the criteria used by Munros to select client brokerage.

While there is no direct linkage between the investment advice given and usage of these broker-dealers, economic benefits are received which would not be received if Munros did not give investment advice to clients (please see additional disclosures in the “Research/Soft Dollars Benefits” section directly above). Munros does not participate in any transaction fees or commissions paid to the broker dealer or custodian and does not receive any fees or commissions for the opening or maintenance of client accounts at recommended brokers.

Not all investment advisers require their clients to direct brokerage. Munros is required to disclose that by directing brokerage, Munros may not be able to achieve most favorable execution of client transactions and that this practice may cost clients more money.

### Client Directed Brokerage

Certain clients may direct Munros to use particular brokers for executing transactions in their accounts. With regard to client directed brokerage, Munros is required to disclose that Munros may be unable to negotiate commissions, block or batch orders or otherwise achieve the benefits described above, including best execution. Directed brokerage commission rates may be higher than the rates Munros might pay for transactions in non-directed accounts. Therefore, directing brokerage may cost clients more money.

As a general rule, Munros encourages each client to compare the possible costs or disadvantages of directed brokerage against the value of custodial or other services provided by the broker to the client in exchange for the directed brokerage designation.

### **Trade Aggregation/Allocation**

It is the objective of Munros to provide a means of allocating trading and investment opportunities between advisory clients on a fair and equitable basis and in compliance with all applicable state and federal guidelines. With respect to clients' accounts with substantially similar investment objectives and policies, Munros may often seek to purchase or sell a particular security in each account. Munros will aggregate orders only when such aggregation is consistent with Munros' duty to seek best execution and is consistent with the investment objective of each client. No client account will be unfairly favored over any other account. Each client that

participates in an aggregated order will participate based on the average execution price in that particular security. All transaction costs will be allocated pro rata based on each client's participation in the transaction. All securities purchased or sold, whether the order is filled completely or partially, will then be allocated pro rata based on the assets of each account.

## REVIEW OF ACCOUNTS

All Munros accounts are subject to a systematic review procedure in addition to the normal daily investment review and the weekly investment management agreement compliance checking system. This high level review is held quarterly by the Operational Committee of the Partnership. The Chair of this meeting is Miller Law who is in charge of day to day investment operations and the remainder of the committee is composed of all other equity partners (Neil Dunn, Bill Murray, John van Kooten)

The standing agenda of the meeting, for which full minutes are kept, includes the following key elements:

- *Client Account Performance* – Here the achieved performance of each account managed is reviewed against client benchmarks, other similar accounts managed by Munros and Peer group figures. Differences and deviations are analyzed and commented on by the individual fund manager. Consistency with agreed investment strategy and buy/sell policy is also monitored to ensure compliance with Munros policies, such analysis also looks in detail at any timing differences evident.
- *Client Account Operations* – Here the compliance record against investment management agreement requirements for each account managed are reviewed in detail along with the margins of compliance safety being used by the individual fund manager. Where margins are deemed too small or approaches to the fixed parameters have been too frequent the individual manager will be suitably instructed for the future operation of the account. Additionally there will be a detailed analysis of likely changes to the benchmark index to establish their ability to affect investment management agreement compliance.
- *Investment Process* – Individual investment decisions are reviewed to ensure that they conform to the Munros Investment Process and that the disciplines contained within the process are being properly adhered to by all fund managers. In the event that a change has been instituted into the investment process, then it is necessary to establish that all subsequent investment decisions reflect such change.
- *Dealing Procedures* – A report is submitted by the Risk Control Committee for each individual account detailing any discrepancies in the account's dealing

sheets and the documented proper procedure. Again any change in procedure needs to be demonstrated as being in place for all accounts thereafter.

- *Custodian Relationships* – A back office report on each account is submitted detailing any settlement problems which have been encountered and the subsequent action taken to rectify any problems.
- *Resources* – A quarterly review is made to ensure that for each individual account that an appropriate level of resource is applied in terms of the quantity and quality of staff involved and of the IT needs.
- *Client Investment Management Agreement* – All client investment management agreement's are reviewed to ensure that they remain applicable and that any client change in client requirement has been properly noted and disseminated throughout the office.

## CLIENT REFERRALS AND OTHER COMPENSATION

From time to time, Munros may retain solicitors to refer clients to Munros. If a client is introduced to Munros by either an unaffiliated or an affiliated solicitor, Munros may pay that solicitor a referral fee in accordance with the all requirements of the Investment Advisers Act, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Munros' portfolio management fee, and shall not result in any additional charge to the client.

If the client is introduced to Munros by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of their solicitor relationship, and shall provide each prospective client with a copy of this written disclosure statement together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Munros and the solicitor, including the compensation to be received by the solicitor from Munros. Any affiliated solicitor of Munros shall disclose the nature of their relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this written disclosure statement.

## CUSTODY

Munros is deemed to have custody because Munros deducts its fees directly from client accounts.

Custody of client assets will be maintained with the independent custodian selected by the client. Munros will not have physical custody of any assets in the client's account except as permitted for payment of advisory fees. Clients will be solely responsible for paying all fees or charges of the custodian. Clients will authorize Munros to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account.

Clients will receive directly from the custodian at least quarterly a statement showing all transactions occurring in the client's account during the period covered by the account statement, and the funds, securities and other property in the client's account at the end of the period. Clients are urged to carefully review the account statement sent by the broker-dealer/custodian and to compare the account statement provided by the broker-dealer/custodian with any statements provided by Munros.

## **INVESTMENT DISCRETION**

For those client accounts over which Munros has discretion, Munros requests that it be provided with written authority (e.g., limited power of attorney contained in Munros' Investment Management Agreement) to determine the amounts of securities that are bought or sold. Any limitations on this discretionary authority shall be included in this written authority statement. Clients may change or amend these limitations as required. All such amendments shall be submitted in writing.

Munros generally has discretionary authority to make the following determinations without obtaining the consent of the client before the transactions are effected: (1) which securities are bought and sold for the account and (2) the total amount of securities to be bought and sold. Munros' authority in making investment related decisions may be limited by account guidelines, investment objectives and trading restrictions, as agreed between Munros and the client.

## **VOTING CLIENT SECURITIES**

### **Proxy Voting**

Munros believes that voting proxies solicited by companies held in its clients' portfolios is Munros' responsibility unless a client reserves the right to do so. Munros believes the central purpose of corporate governance is to manage the corporation's underlying assets and employees in such a manner as to maximize the economic best interests of its shareholders. This precept does not mean that managers should seek to reap short-term gains that would damage the long-term health of the business, but it does indicate that managers and directors should be working for the shareholders and not for their own individual interests. Munros believes that proxies should be voted with concern only for the economic interests of shareholders and does not believe that corporations should be asked to grapple with non-economic problems of our society that are better addressed by the legislative system. Munros considers only those factors that relate to clients' investments, including how its votes will economically impact and affect the value of those investments.

Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value

and maintain or increase the rights of shareholders. Proxy votes will normally be cast against proposals having the opposite effect. On each and every issue, Munros will vote in a prudent and diligent fashion and only after careful evaluation of the issues presented on the ballot. Munros maintains the books and records of proxy votes cast and this information, as well as the full text of Munros' Proxy Voting Policies and Procedures, are available by written request.

### **Class Action Settlements**

As requested, Munros will assist clients with filing the required paperwork to respond to a class action lawsuit or similar settlements involving securities owned by the client. Munros does not handle class action lawsuits on behalf of its institutional clients.

## **FINANCIAL INFORMATION**

### **Prepayment of Fees**

Because Munros does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, Munros is not required include a balance sheet with this disclosure brochure.

### **Financial Condition**

Munros does not have any adverse financial conditions to disclose.

### **Bankruptcy**

Munros has never been the subject of a bankruptcy petition.

## **PRIVACY NOTICE**

Munros views protecting its clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. Munros does not disclose any nonpublic personal information about its clients or former clients to any nonaffiliated third parties, except as permitted or required by law. In the course of servicing a client's account, Munros may share some information with its service providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers, etc. Munros restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for Munros. As emphasized above, it has always been and will always be Munros' policy never to sell information about current or former

clients or their accounts to anyone. It is also Munros' policy not to share information unless required to process a transaction, at the request of a client, or as required by law. For the full text of Munros' Privacy Policy, please contact Munros at 248-901-1532.