



**Form ADV**

**Part 2A Brochure**

**March 15, 2016**

**Lyrical Asset Management LP**

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This brochure provides information about the qualifications and business practices of Lyrical Asset Management LP (Lyrical, we or us). If you have any questions about the contents of this brochure, please contact us at (212) 415-6600 or [ir@lyricalpartners.com](mailto:ir@lyricalpartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

A copy of this brochure and additional information about Lyrical are also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Our registration as an investment adviser does not imply a certain level of skill or training.

## **Item 2 - Material Changes**

We last revised our brochure on Part II of Form ADV on March 27, 2015. Item 4 includes our updated assets under management and additional details regarding our management of model portfolios. Other changes are immaterial.

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#### **Item 4 – Advisory Business**

Lyrical is a Delaware limited partnership founded in 2008 by Andrew Wellington and Jeffrey Keswin who are the principal and only owners of Lyrical. Lyrical is the investment adviser/manager for separately managed accounts, Lyrical U.S. Value Equity Fund (ticker: LYRIX), Conventum-Lyrical Fund, SIG|Lyrical Fund, Lyrical Long-Only Partners LP (Long-Only LP), Lyrical Long/Short Value Partners LP (Long/Short LP), and Lyrical U.S. Hedged Value Fund (ticker: LYRHX) (collectively, the Accounts). As of March 11, 2016 Lyrical managed \$4,484 million on a discretionary basis and \$68 million on a non-discretionary basis.

Lyrical directs and manages the investment and reinvestment of the Accounts' assets, and provides reports to investors. Investments are limited to publicly-traded equity securities and cash equivalents. Clients may impose restrictions on investing in certain securities or types of securities.

We participate in wrap fee programs under which we provide a model portfolio to the sponsors of those programs and we do not exercise discretion over accounts. In those programs we are paid a portion of the wrap fee. Except where we are able to control and monitor the timing of trades, we update these model portfolios only after completion of trading for our discretionary accounts.

#### **Item 5 – Fees and Compensation**

Our standard fee structure for our standard, generally equally weighted portfolios (EQ Portfolios), consists of an asset-based fee and a performance-based fee, each detailed below.

Market capitalization scaled portfolios (CS Portfolios) are available for which our standard fee structure consists of an asset-based fee, detailed below, and no performance-based fee.

LYRIX pays Lyrical a fee of 1.25% per annum and LYRIX's total expenses are capped at 1.45% per annum for its institutional class, plus an additional 0.25% per annum distribution fee payable with respect to its investor class.

LYRHX pays Lyrical a fee of 1.55% per annum and LYRHX's total expenses are capped at 1.75% per annum for its institutional class, plus an additional 0.25% per annum distribution fee payable with respect to its investor class.

##### Asset-Based Fee

We charge a standard quarterly asset-based fee with respect to EQ Portfolios, including Long-Only LP, equal to  $\frac{1}{4}$  of 0.75% of the value of each account.

We charge a standard quarterly asset-based fee with respect to CS Portfolios equal to  $\frac{1}{4}$  of 1.25% per annum of the first \$10 million of value of each account, plus  $\frac{1}{4}$  of 1% per annum of the next \$40 million of value of each account, plus  $\frac{1}{4}$  of 0.75% per annum of the value of each account in excess of \$50 million.

Long/Short LP charges a quarterly management fee equal to  $\frac{1}{4}$  of 1.5% of the value of an investor's capital account.

These fees are charged in advance. Upon termination of an account we return to the client any amount paid for the balance of the quarter in which the termination occurs, on a pro rata basis. We also charge a prorated asset-based fee on contributions made following the beginning of a quarter.

#### Performance-Based Fee

We charge a standard performance-based fee with respect to EQ Portfolios, including Long-Only LP, equal to 20% of the amount by which the value of each account as of December 31 of each year exceeds the amount the account would be worth if it instead was invested in the S&P500® Index (with dividends reinvested) since the last time a performance-based fee was paid. Separate account clients may select another appropriate index, such as the Russell 1000® Value Index, to be used for the purpose of determining performance-based fees.

Long/Short LP charges a 20% performance allocation.

Clients are billed quarterly for asset-based fees and annually for any performance-based fee or allocation. Each client's custodian remits payment to us, at the client's direction. Fees are negotiable.

Investors in the Accounts will bear not only Lyrical's fees, but also other fees and expenses of the Accounts such as brokerage commissions and any custody fees. In addition, investors in Long-Only LP, Long/Short LP, LYRIX and the Conventum-Lyrical Fund bear audit, legal and administrative fees, and other fund related expenses.

Lyrical's investment management agreements with its clients generally provide that the client will indemnify, and not hold liable, Lyrical and its affiliates for certain expenses, losses and claims that may arise in connection with the performance of its duties (including management of the client's investments and execution of investment trades), provided that such persons' conduct has not breached the applicable standards of conduct (i.e., the relevant actions were, in general, taken in good faith and did not involve willful misconduct, gross negligence, a violation of federal or state securities laws or criminal wrongdoing). In the opinion of the SEC, an agreement to waive or indemnify against certain liabilities under the federal securities laws may be against public policy and therefore may be unenforceable.

#### **Item 6 – Performance-Based Fees and Side-by-Side Management**

Lyrical charges performance-based fees to certain of its funds and other clients. To the extent Lyrical charges a client solely asset-based fees, we do not believe that investors are subject to a risk that Lyrical will favor accounts on the basis of fee choice because Lyrical allocates investments in publicly traded equities in relative proportions based on factors other than fee class.

## **Item 7 – Types of Clients**

We provide advisory services to high net worth individuals, institutional investors, and two investment companies. We impose a minimum investment of \$2.5 million to invest in Long/Only LP or Long/Short LP or to open a CS account. These account minimums are negotiable. Note also that LYRIX and LYRHX impose a lower minimum of \$100,000 for their respective institutional classes and \$2,500 for their investor classes.

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

We employ a value approach to investing. We believe that a portfolio of companies with low valuations relative to their long-term normalized earnings power will outperform the overall market over time. Furthermore, unlike some traditional value investors who are willing to own any business at the right price, our philosophy is to invest only in businesses that we believe are of high quality.

We start with a universe of the top 1,000 stocks traded in the U.S. (roughly \$3 billion market cap), and then use a proprietary screen to generate investment candidates. The screen can trace its origins back to 1996, and has been implemented in its current form since 2001. The screen estimates a fair price for each stock in the universe applying a normalized multiple to an estimate of five year forward normalized earnings, which is calculated by taking the historical earnings trend line of a company and consensus estimates for future earnings and statistically extrapolating forward five years. The screen is run monthly, and sometimes more often if stock prices are changing rapidly. All data for the screen are downloaded from FactSet. While the screen is subject to various errors and biases, it is a proven systematic approach to identify potential investment ideas.

Following the initial screen, each portfolio candidate/stock idea goes through an extensive fundamental research process. The research process has two objectives. The first is to develop an in-depth understanding of the business, including: drivers of growth and profitability, position relative to competitors and competitive advantages, position and leverage with customers and suppliers, historical and potential business threats and opportunities, and management style, objectives and incentives. This process includes financial statement analysis, study of competitors, customers and suppliers, discussions with company management, review of past earnings calls and investor presentations, and some use of sell-side research. The second research objective is to understand the investment controversy surrounding the stock, i.e. the reason why the stock is currently valued as it is. We are looking to determine if the factors depressing the value of the stock are temporary or permanent. We seek to make that determination by applying our in-depth understanding of the business and, as necessary, performing additional analysis specific to each investment controversy.

At the conclusion of our research/due diligence, investment ideas that are deemed attractive are considered for inclusion in the portfolio. These are companies where we believe the investment controversy to be temporary, where the underlying business has sufficient quality and durability, and where the discount in the stock price is large enough to compensate for the risks of the investment.

For Long/Short LP, we use the same screening process and the same general investment methodology described above with respect to long positions. There, however, we also seek to sell short overvalued securities which can be bought to cover when their stock price declines to the price target. For LYRHX, we generally sell short sector-specific exchange-traded funds to hedge market exposures from LYRHX's long positions.

We do not attempt to time the markets, or focus on weightings relative to any index.

Investing in securities involves a risk of loss that investors must be prepared to bear. Because the Accounts invest primarily in publicly-traded equity securities, Lyrical believes their primary risk of loss is associated with securities selection and broad market movements, and wide and sudden fluctuations in market value can occur.

Additional risks pertain to short-selling, conducted by Long/Short LP and LYRHX. Short-selling involves the sale of a security that the account does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the amount that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. A client may have losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

#### **Item 9 – Disciplinary Information**

Lyrical and Lyrical's employees have not been involved in any legal or disciplinary events in the past ten years (and, to the best of our knowledge and belief, in years preceding that ten-year period) that would be material to a client's evaluation of our advisory business or the integrity of our management.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

Lyrical has a material business relationship with Lyrical Partners, L.P. (Lyrical Partners). Lyrical Partners manages investment funds including funds of funds, private equity funds and hedge funds. Lyrical and Lyrical Partners have overlapping, but not identical, ownership. Lyrical Partners provides Lyrical offices, computers, telecommunications, and other facilities necessary to operate Lyrical's business, and Lyrical Partners' staff provides Lyrical general business, marketing, administrative and compliance services. Lyrical Partners allocates certain costs to Lyrical, which are borne by Lyrical and not by the Accounts.

We do not believe that our relationship with Lyrical Partners causes a conflict of interest with our clients because the respective investment processes of Lyrical and Lyrical Partners are separate.

Lyrical-Antheus Management, LP (Antheus), which provides investment management services with respect to real estate related investments, is deemed commonly controlled with us, as Mr. Keswin owns 50% of that firm. We do not believe that such common ownership causes a conflict of interest with our clients because Antheus operates out of separate offices, with separate operating staff and operations from us.

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

To avoid any potential conflicts of interest involving personal trades, Lyrical has adopted a Code of Ethics (Code). The core principals set forth in the Code are:

- We must at all times place the interests of our Accounts first.
- All personal securities transactions must be conducted in a manner consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility.
- Employees must not take any inappropriate advantage of their positions at the firm.
- Information concerning the identity of securities and financial circumstances of the Accounts and their investors must be kept confidential.
- Independence in the investment decision-making process must be maintained at all times.

Lyrical and its principals, partners, officers, employees, affiliates and other related parties may transact in their personal accounts in mutual funds, ETFs, ETNs, stocks, bonds and securities that are not traded publicly including privately held companies, hedge funds, venture capital funds and commodity pools. Lyrical requires certain personal securities transactions, specifically those related to equity securities which may also be traded by or are held at the time by the Accounts and transactions in private placements and initial public offerings, to be subject to pre-clearance by our Chief Compliance Officer. This preclearance process includes an assessment of whether such transactions pose any actual or potential conflicts of interest with respect to transactions executed by Lyrical for the Accounts.

A copy of Lyrical's Code shall be provided to any client or prospective client upon request.

While it is not contemplated that Lyrical would buy securities from or sell securities to any client, it is possible that Lyrical Partners or any of the funds it manages would buy securities from or sell securities to one of its clients. Any such transactions would be subject to prior approval by Lyrical Partners' Chief Compliance Officer consistent with Lyrical Partners' compliance manual.

Because Lyrical's and Lyrical Partners' respective investment processes are kept separate, it is also possible that Lyrical Partners or any of the funds it manages could buy or sell a security which Lyrical or any of its Accounts is transacting in the opposite direction, although any such transactions would be executed as market transactions.

Employees of, and investment funds managed by, Lyrical and/or Lyrical Partners invest from time to time in funds and managed accounts managed by Lyrical or Lyrical Partners. Lyrical will abide



by trade allocation practices included in its compliance manual aimed at assuring fair allocation of investments between Accounts, including any Accounts of its employees or affiliates. Similarly, Lyrical Partners allocates investments between eligible funds in a fair and appropriate fashion as determined in accordance with its compliance manual.

Lyrical and Lyrical Partners have an indirect economic stake in each of the respective managed accounts and funds they manage which provide for compensation based upon performance.

## **Item 12 – Brokerage Practices**

We consider the following factors in selecting broker-dealers for client transactions and determining the reasonableness of their compensation:

- Quality of execution - accurate and timely execution, clearance and error/dispute resolution
- Reputation, financial strength and stability
- Block trading and block positioning capabilities
- Willingness to execute difficult transactions
- Willingness and ability to commit capital
- Ongoing reliability
- Desired timing of the transaction and size of trade
- Confidentiality of trading activity
- Market intelligence regarding trading activity

We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost. Accordingly, in any transaction or series of transactions, our clients may pay commissions to a broker in an amount greater than the amount another broker might charge.

We do not have any “soft dollar” arrangements.

Subject to seeking best execution, we may also consider other relationships as factors in the selection of broker-dealers. For example, brokers to our clients have in the past, and may in the future, refer investors to Lyrical-managed funds or engage in other transactions with us. From time to time providers of client brokerage services also provide incidental consulting services and other advice with respect to our operations and other matters on a formal or informal basis. The provision of such services or advice may or may not be subject to formal agreements (including confidentiality agreements) and may or may not be compensated, depending on the extent of the services provided. Provision of services, including client referrals, could provide us with an incentive to select the respective broker-dealer for client transactions without regard to best execution. We will, however, provide compensation that we consider to be arm's length in any

case in which such services have material value and will endeavor not to allocate brokerage transactions to a provider of such services as compensation for client referrals or other services or otherwise in violation of our duties to our clients. In the past fiscal year we did not direct client transactions to a particular broker-dealer in return for client referrals.

We permit clients to direct us to a particular broker-dealer, subject to our ability to obtain best execution. Directing brokerage may cost clients more money. For instance, the client may pay higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

To the extent Accounts are custodied at the same broker-dealer, trades for such Accounts are typically aggregated and allocated among the Accounts in a manner intended to cause the holdings of the related security to be proportional to their Account values, subject to any special parameters for a client. To the extent that orders are not aggregated across all Accounts it is possible that different Accounts will experience different transaction prices. We communicate orders across multiple broker-dealers in a manner aimed at fairness among Accounts over time.

### **Item 13 – Review of Accounts**

Accounts are reviewed daily by our Controller under the guidance of Andrew Wellington as Portfolio Manager. We provide monthly written reports to investors in separately managed accounts setting forth account balances, performance of the account and relevant benchmarks, and fees. On a quarterly basis we provide written commentary.

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

Lyrical has entered into solicitation agreements under which it compensates third parties for certain client referrals. Investments by such referred clients in any Account will be subject to Lyrical's standard terms and conditions and will not be subject to any incremental fees or allocations payable to Lyrical or any affiliate as a result of such solicitation agreements. We may also receive client referrals from brokers providing services to our clients, as discussed in Item 12 above.

### **Item 15 – Custody**

All client assets are held in custody by broker/dealers or banks unaffiliated with Lyrical. Clients are urged to compare any statements provided to them by their custodian to statements provided by Lyrical.

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

Lyrical has been granted discretionary authority to manage the Accounts of its clients pursuant to the written investment management agreements entered into with such clients. Clients may negotiate restrictions such as prohibiting or limiting investment in specific securities or industries.

### **Item 17 – Voting Client Securities**

Lyrical's investment management agreements with its clients grant us the authority to cast all proxy votes. Lyrical has adopted a proxy voting policy, as required by the Advisers Act. The policy provides that we will act in the best interests of our Accounts in determining whether and how to vote on any proxy voting matter. We will classify all requests for stockholder voting authority and related proxy materials as routine (e.g., uncontested director elections, and reappointment of independent audit firms) or non-routine. In the case of any routine matter, we will generally vote in accordance with the recommendations of the issuer's management unless, in our opinion, such recommendations are not in the best interests of our Accounts.

Lyrical's Portfolio Manager and Chief Compliance Officer will consult with each other concerning the best method to resolve any actual or apparent conflict between the interests of Lyrical and its Accounts in a manner that affords priority to the interests of the Accounts taken as a whole.

Clients may negotiate terms in their investment management agreements that provide for the retention or delegation of voting rights in accordance with their circumstances.

Clients may obtain a copy of the policy and information on how Lyrical voted client securities upon request.

### **Item 18 – Financial Information**

We do not believe that there are any financial conditions reasonably likely to impair our ability to meet our contractual commitments to our clients.

### **Item 19 – Requirements for State-Registered Advisers**

Not applicable.