

## **MARSHFIELD ASSOCIATES, INC**

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This brochure provides information about the qualification and business practices of Marshfield Associates.

If you have any questions about the contents of this brochure, please contact Marshfield Associates. 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.

Additional information about Marshfield Associates is also available on the Internet at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

## **Item 2 - Material Changes**

Recently, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the format and scope of the disclosure document that Marshfield provides to clients as required by SEC Rules. This Brochure dated March 30, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that the previous brochure, dated December 2, 2010, did not require.

In the future, this Item 2 will identify and discuss only specific material changes that are made to the Brochure since the last annual update. It will also reference the date of Marshfield’s last annual brochure update.

In the past Marshfield has offered or delivered its ADV Part II to clients on at least an annual basis. Pursuant to new SEC Rules, Marshfield will provide to its clients a summary of any material changes to this and subsequent Brochures within 120 days of the close of Marshfield’s fiscal year. Marshfield will provide additional ongoing disclosure information about material changes as necessary and further will provide a new Brochure based on changes or new information at any time, without charge.

Marshfield’s current brochure may be requested by contacting Kim Vinick, Chief Compliance Officer, at 202-828-6200 or [kimv@marshfieldinc.com](mailto:kimv@marshfieldinc.com). The Brochure is also available on Marshfield’s web site [www.marshfieldinc.com](http://www.marshfieldinc.com) free of charge, and additional information about Marshfield Associates is available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site additionally provides information about any persons affiliated with Marshfield who are registered, or are required to be registered, as investment adviser representatives of Marshfield.

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## **Item 4 - Advisory Business**

### **Marshfield Associates, Inc (“Marshfield Associates” or “Marshfield”)**

#### **Who we are**

- Concentrated, long-only value equity manager.
- Established in 1989.
- Privately-owned by six principals:
  - Christopher Niemczewski owns more than 25%.
- Average tenure of the six partners is 17 years.
- Approximately \$1.5 billion under management (as of 12/31/10).
- Approximately 750 client relationships and 1500 accounts.

#### **Investment Philosophy**

##### *One Product / Same Philosophy / Same Process*

- Marshfield strives to build wealth while minimizing risk of sizeable loss two ways:
  1. Invest in companies in attractively structured industries that have (1) enduring competitive advantages that are difficult to duplicate and (2) a strong and appropriate corporate culture.
  2. Insist on a margin of safety between price paid and a conservative estimate of what our research indicates a company is worth.
- Own 18-20 stocks in the portfolio.
- Marshfield’s performance goal is to exceed the performance of the S&P 500 Total Return index, with lower risk, over a market cycle.

#### **Account Discretion**

- Assets under management as of December 31, 2010:
  - Discretionary basis: \$1.445 billion.
  - Non-discretionary basis: \$14 million.
- Portfolios that share an inception date will mirror one another. Once decisions to buy/sell are made by the research team, the decision is implemented uniformly across portfolios.
- Any differences in an investment decision implementation among accounts are driven by cash availability and account-specific restrictions.
- Marshfield will accommodate reasonable policies and constraints a client places on an account.
  - A client may need to restrict or prohibit transactions in certain types of securities or industries for employment or mission reasons.
  - A client may require that positions transferred into a managed account be held for a reason specific to the account of client; these positions will be held as unsupervised positions, meaning they will not be part of the managed portfolios.
- There are two vehicles for investing with Marshfield:
  - All Equity – This is referred to as Marshfield’s “Core Product”.
  - Balanced
    - Same equity style (Core Product) in addition to investing in fixed income for those clients who have requested Marshfield to do so.

## **Wrap Program**

- Marshfield participates in a wrap fee program called Consulting Solutions through RBC Wealth Management (“RBC”).
- Marshfield manages the wrap accounts identically to other directed accounts.
- Wrap accounts are not subject to Marshfield’s \$1 million account minimum.
- For managing the wrap accounts, Marshfield receives a portion of the fee charged by RBC, the sponsor of the wrap program.
- The servicing of clients is handled primarily through RBC, the sponsor.
- The reports wrap clients may receive from Marshfield will vary. Please see Item 13 - Review of Accounts, for more information.

## **Item 5 - Fees and Compensation**

### **General Account Conditions**

- Clients may authorize Marshfield to directly debit fees from a client account or they may elect to be billed directly. Clients may select either method.
- A client may terminate the standard contract, without penalty, if written notice is provided to Marshfield within five (5) business days after the contract has been executed.
- Either party may terminate the contact by providing thirty days' written notice to the other party.
- Marshfield will confirm to the client in writing the date on which management of and responsibility for the account will cease.
- Marshfield will not reimburse or bill clients for a partial quarter when it is a de minimus amount:
  - Marshfield will not bill less than \$100 for a partial quarter when an account opens.
  - Marshfield will not refund a client for pre-paid advisory services when an account closes if the amount to return is \$25 or less.

### **Asset-Based Fees**

- Fees are based upon a percentage of assets under management.
- Fees are assessed quarterly in advance.
- Accounts opened or terminated mid-quarter will be charged or refunded a prorated fee.
  - The prorated fee is based upon the number of days such account is active for such quarter using a ratio in which (i) the numerator is equal to the number of days such account is active for the applicable quarter and (ii) the denominator is equal to the number of days in the applicable quarter.
- Such Asset-Based Fees are not negotiable, subject to the exceptions discussed in the “Fee Exceptions” set forth below.

#### Equity Assignments:

- 1.25% up to \$10 million.
- 1.00% on mandates of at least \$10 million.
- 0.80% on mandates of at least \$20 million.

#### Balanced Assignments (including 40% or more in fixed income)

- 1.00% up to \$10 million.
- 0.90% on mandates of at least \$10 million.
- 0.70% on mandates of at least \$20 million.

### **Performance Fee**

- In rare cases, Marshfield may charge a performance fee along with a flat management fee.
  - Flat management fee varies with the size of the account but is lower than it would be without the performance fee.
- The performance fee is 10% of gains on supervised equities in the client's portfolio.
- Realized and unrealized capital gains and losses, and portfolio income, will be used in measuring clients' assets for the calculation of performance-based fees.
- Performance fees are charged quarterly in arrears.
- Accounts terminated mid-quarter will be charged a fee from the beginning of the quarter through the date of termination.
- Such Performance Fee is not negotiable, subject to (i) the exceptions discussed in the "Fee Exceptions" set forth below and (ii) Item 6 hereof.

### **Fee Exceptions**

- For portfolios managed under unique or extraordinary circumstances, fees may be negotiated on an individual basis. This includes, but is not limited to:
  - Clients whose entire relationship - but not a single account - warrants a different fee level.
  - Accounts for employees and their friends and family.
  - Larger-asset-value accounts.
  - Mutually agreed upon arrangements where fees are not assessed or paid quarterly in advance.

### **"Grandfathered" Fee Schedule**

- Certain accounts with long-standing clients may be charged fees based on an older fee schedule that has been "grandfathered."

### **Other Fees**

Marshfield's fees are *exclusive* of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client.

Clients may incur certain charges imposed by custodians, brokers, and other third party providers, such as custody fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts, securities transactions or money market mutual funds. Such charges, fees and commissions are exclusive of and in addition to Marshfield's fee, and Marshfield shall not receive any portion of these commissions, fees, and costs.

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

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

In some cases, Marshfield has entered into performance-based fee arrangements with qualified clients which are subject to individualized negotiation with such client in which the fees to be paid by such clients are based on a share of the capital gains on or capital appreciation of the assets of such clients. In some instances, performance-based fees are charged by Marshfield-affiliated advisors or in the limited liability companies formed by Marshfield for which Marshfield or a group of its owners serves as managing members. (Please see Item 10 - Other Financial Industry Activities and Affiliations for additional information regarding these affiliated entities). Any performance or incentive fee arrangements are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"). As a result, Marshfield manages both accounts that are charged a performance-based fee and accounts that are charged other types of fees, including, without limitation, Asset-Based Fees.

Marshfield has designed and implemented procedures to ensure that all clients are treated fairly and equally, regardless of applicable fee structure.

### **Potential Risks Associated with Performance-Based Fee Arrangements:**

- Could create an incentive to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.
- Could create an incentive to favor higher fee paying accounts, such as these performance-based fees, over other accounts in the allocation of investment opportunities.

### **Marshfield Attempts to Mitigate these Risks by:**

- Absent client-specific restrictions, including directed accounts for which transactions may not be able to be executed at the same time as non-directed accounts, Marshfield implements investment decisions uniformly among all Core Product clients regardless of size or fee structure.
- If an order is filled in its entirety during the applicable trading period, each participating client receives/sells its allotted shares at the average share price.
- Transaction costs are shared pro-rata based on each client's participation in the transaction.
- If an order is not filled in its entirety during a single trade day, it may be allocated pro-rata among all participating clients unless there are only a few shares executed, in which case the trade may be allocated according to a randomized rotational basis so that over time each client is treated fairly.
- Marshfield aggregates trades when the same security is being bought for Core clients and Marshfield's unregistered investment funds managed either by Marshfield or its affiliate advisor.

## Item 7 - Types of Clients

Marshfield provides investment advice to individuals, pensions and profit-sharing plans, trusts, estates, charitable organizations, corporations or other business entities and municipalities.

### Account Requirements

Marshfield's account minimum is \$1 million.

- Marshfield will in its sole discretion make exceptions to this minimum account value and has, in certain situations, allowed accounts of a lesser value to be opened and maintained with the firm.
  - When a client has multiple accounts and at least one account meets the minimum requirement.
  - A combined relationship is over the minimum.
  - Accounts for employees including special consideration for friends and family.

Marshfield wrap accounts sponsored by RBC Wealth Management have a \$100,000 minimum.

- Also subject to Marshfield's minimum account value discretion as described above.

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

### Characteristics of Marshfield's Core Investment Strategy (the "Core Strategy")

- Marshfield invests slowly.
  - Typically takes 1-2 years to invest an equity portfolio.
  - The pace of investing is dictated by opportunity at the individual security level and not when cash comes in.
- Marshfield tends to purchase out of favor stocks while shying away from popular ones.
- Marshfield Core Product is a concentrated portfolio; a mature portfolio will typically hold between 18-20 stocks.
- Marshfield holds stocks, on average, for a very long time.

### Marshfield's Core Strategy

Marshfield looks to invest in high quality, "built-to-last" companies that are well-managed and in good industries, which are mostly resilient in bad times and profitable in good times. Marshfield's objective is to build wealth while minimizing risk of sizeable loss of principal.

1. Limit investments to companies with enduring competitive advantages that are difficult to duplicate, and which pass Marshfield's tests of corporate culture, industry structure and management quality.
  - **Corporate Culture**
    - The internal compass expressed by the company's attitude toward customers and shareholders, which needs to permeate the organization and be appropriate to the business.
    - Look for managements with integrity, courage and resolve.
  - **Industry Structure:**
    - This refers to attributes like competitive rivalry and the power of customers and suppliers. Marshfield wants its companies to have leverage within their industry's value chain. Companies need to have the discipline to remain focused on maintaining and exploiting those advantages.



2. What Marshfield pays for a stock matters, which is why it insists on a margin of safety between price paid and a conservative estimate of what its research indicates a company is worth.

- **Strict Price Discipline:**

- Willing to hold cash.
- Will buy stocks opportunistically when prices are attractive rather than when cash comes into an account.
- Stock price paid is often less than if bought on day one.
- During a trade, the price that Marshfield is willing to pay for a security may be less than where it is trading, resulting in accounts not receiving the intended full position or the stock at all. (Please see Marshfield's Aggregation Procedures in Item 11 for further information).

- **Margin of Safety:**

- Demand at least 20% margin of safety between price paid and Marshfield's estimate of company value.
- The more Marshfield knows and likes a company, the smaller the discount (though not less than 20%).
- If a company is new to the portfolio, the discount must be greater (30-40% from estimated value).
- Demand an additional layer of price protection to compensate for the possibility of an adverse outcome for risks that are material and known (e.g. lawsuits, disputes with regulatory authorities, etc).

Marshfield is less concerned about short-term corporate performance than it is about the long-term health of a company. Accordingly, the drivers of a company's long-term business are considered:

- Its corporate culture.
- The components of its long-term performance.
- The market environment in which it operates.
- The regulatory environment.
- The company's own enumeration of risk factors (e.g., matters under litigation, disputes with tax or other regulatory authorities).

### **Marshfield's Core Research Team (The Decision-Makers)**

- Works collaboratively as Marshfield's "Portfolio Manager" to make all the investment decisions for the Core Product.
- Each member of the team participates in all aspects of the research process, analysis, valuation and critique.
- Team members weigh in on each decision.
- Final authority ultimately rests with Chris Niemczewski and Elise Hoffmann.

➤ **Rigorous Analysis**

- Group process aimed at flushing out truths/anomalies.
- Group speaks to the management teams and competitors of potential investments, as well as to others that might shed light on them, such as suppliers and customers.
  - Seeks to visit 20-30 companies per year.
  - Talks on the phone to about 100 companies annually.
- Vets financials, reads public filings, follows the news, and remains abreast of regulatory changes, litigation and other developments in order to identify any emerging issues that might impact the riskiness of its investments or plant seeds for new ideas.

### ➤ **Synthesis**

- Focuses on how an individual company earns returns over time.
- Includes in its valuation a “stress test” study of how the company responds to different economic environments; test is biased toward more conservative assumptions.
- Focuses on broad strategic questions and on the structural and cultural issues deemed critical to analysis.
- Develops a conservative estimate of intrinsic value.
- Sets specific price limits at a discount to their intrinsic valuation. (See the “Margin of Safety” discussion above for additional information).
- While we do not purport to know what the economic future holds, Marshfield consults with an economist to interpret key economic events and trends.

### **Continued Analysis for Suitability**

- Once a security is added to the Core Holdings, it remains subject to the Research Team’s analysis for continued suitability as a portfolio holding, including valuation work.
- When assumptions or theories change in a way that undermines Marshfield's confidence in the investment:
  - The security will be sold, or
  - The size of the holding in the portfolio will be reduced.
- Marshfield analyzes the portfolio as a whole and very occasionally makes strategic sales when it feels risk is over-concentrated in a particular industry.

### **When We Sell**

Marshfield’s objective going into an investment is to hold it for a very long time. The primary reasons Marshfield sells a stock are:

1. Marshfield should not have bought the stock in the first place.
2. When the company or the industry has changed for the worse.
3. To limit a portfolio-wide systematic risk, as with too great an exposure to a single industry or sector of the economy.
4. When a stock becomes excessively overvalued, typically at or above 200% of intrinsic value.
5. When a stock comprises too great a portion of the portfolio, typically at 18%.

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

### **Potential Risks Associated with Marshfield Strategy:**

1. There is a risk in owning a concentrated portfolio of relatively few stocks, as the impact of mistakes may be larger than it would be in a diversified portfolio.
2. There is a risk in avoiding popular stocks while investing in out of favor stocks and those ignored by the market, as unpopular stocks may continue to be unpopular for a while.
3. Cash can be held in accounts for up to 2 years, and sometimes longer (which can negatively impact portfolio performance in a rising market).
4. The research team may misjudge a company’s competitive advantages, culture, or strategy; may misanalyze an industry’s structure; or may make erroneous assumptions about a company’s growth rate, margins or other forward-looking metrics in conducting its valuation.

### **Marshfield Attempts to Mitigate These Risks by:**

1. The first line of defense against risk in Marshfield's investment strategy is its philosophy and its disciplined process of finding companies that have all of the required attributes to be part of the Core Strategy. Marshfield believes that by being patient and disciplined, it will ultimately be rewarded for the discomfort of owning temporarily out-of favor stocks. Human nature compels investors to want to own popular stocks, and conventional wisdom holds that wide diversification protects against risk. On the contrary, Marshfield believes that it is far easier to make money by knowing the companies you own very well, while being extremely careful about the prices you pay for those companies – which by definition means Marshfield will largely own unknown or unpopular stocks.
2. Marshfield scrutinizes each company through its research analysis the same way – by evaluating whether it offers the attributes that have been identified as essential for a Core Holding. This eliminates the temptation to skew the analysis over time, as each stock is subjected to the same tests. The objective is not just to find the right stocks, but to find the right stock at the right price. Marshfield's analysis focuses on the long-term and whether a company will do well for a long time into the future, notwithstanding any near-term weakness. Finding high quality, "built-to-last" companies that are well-managed and in good industries *at a discount* generally does not typically happen unless:
  - The stock is ignored by the market.
  - The stock is out-of-favor.

The additional layer of price protection Marshfield requires on these out of favor stocks is to further protect against the possibility of an adverse outcome (see margin of safety discussion above).

3. Marshfield is a patient investor and lets the pace of investing be determined by opportunities (therefore it is often slow) and not when cash is available. Marshfield is disciplined about price and willing to hold cash, which means it can often buy stocks at cheaper prices than if it bought them all on day one when cash came in. The simplest way to make money is to pay much less for a stock than it is worth.
4. Risk is managed at the portfolio level by:
  - Occasionally trimming or selling a stock position if it is determined that too much of the portfolio is exposed to a single market or other risk.
  - Holdings new to the portfolio are gradually introduced through an initial purchase with a limited position size (generally .5 – 1% position size initially).

### **Balanced Accounts**

For Marshfield clients who request that a portion of their portfolio be invested in bonds, Marshfield requires the client to instruct Marshfield on the portfolio allocation to bonds vs. equities (or the Core Product). Marshfield will incorporate any reasonable client-specific restrictions into the choice of individual bonds for each portfolio, including ratings restrictions, tax bracket, and the choice of index. Once the client sets the percentage allocation, Marshfield's trader begins the process of buying bonds.

### **Balanced Account Strategy**

- Because Marshfield does not believe it (or anyone) can predict the future direction of interest rates, its bond portfolios are built with maturities roughly laddered, with issues coming due over time.
- Portfolio durations are matched to the relevant index, rather than incorporating any interest rate or economic bets.
- Marshfield's traders buy specific bonds for client portfolios by reviewing inventories and competitive offerings from multiple institutional traders.
- Bonds are purchased that are appropriate for each specific client's tax bracket, maturity ladder, and account restrictions.

### **Tax-Sheltered, Tax-Exempt, or Low-Tax-Bracket Taxable Clients**

Marshfield buys U.S. government and agency bonds as the default option. Marshfield buys debt in the form of corporate paper only if Marshfield believes it understands the issuer's credit quality and is paid to take the risk of buying corporate obligations (e.g. the yield-to-maturity spread over government bonds is high enough to justify the risk of investing in corporate bonds). This means that Marshfield usually buys bonds from companies whose stock Marshfield would be willing to own (at a price), as Marshfield will have done an in-depth analysis and affirmed the security of the bond's underlying cash flows.

Periodically, when yield spreads between corporates, governments, and municipals justify, Marshfield will buy tax-exempt bonds for low tax bracket taxable clients (see Taxable Clients below).

### **Taxable Clients**

Marshfield's goal is to buy tax-exempt bonds with what it believes to be minimal credit risk while still obtaining average to above-average returns. Therefore, we typically buy debt which is pre-refunded or escrowed to maturity or otherwise guaranteed as a direct obligation of the U.S. Government. We will buy sinking fund bonds (where part of the issue may be redeemed prior to maturity on a lottery basis) where the yield-to-worst total return is higher than bullet debt of the same maturity. We buy odd lot pieces at lower prices than we would pay for round lot pieces. We buy out-of-state where after-state-tax yields justify.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Marshfield Associates or the integrity of Marshfield's management. There are no legal or disciplinary events that are material to your evaluation of Marshfield Associates.

## Item 10 - Other Financial Industry Activities and Affiliations

Marshfield has two affiliated advisors and for additional information please refer to Parts I and II of their respective Form ADVs:

- ❖ Yogi Advisors, LLC; and
- ❖ Bushido Capital Partners LLC.

The personnel of Marshfield Associates are also principals and employees of Yogi Advisors, LLC and Bushido Capital Partners LLC. Marshfield will share office space, trading platforms, office supplies and equipment with these affiliated advisors and will share the services of administrative employees to a limited extent.

Marshfield has formed several limited liability companies for which Marshfield or a group of its owners serves as managing members. Certain clients of Marshfield, whose investment objectives and financial status meet or exceed certain criteria established by Marshfield pursuant to federal securities law requirements, are invested in the following:

- ❖ Marshfield Insurance Investments, LLC ("Insurance Investments")  
Managing Member: Marshfield Management LLC.  
Investment: Sole holding is an interest in Olympus Re Holdings, Ltd., a Bermuda-based reinsurance company.
- ❖ Marshfield Insurance II, LLC ("Insurance II")  
Managing Member: Marshfield Management II.  
Investment: Invested in pre-IPO Symetra Financial Corporation, a life insurance and investment products business.
- ❖ Marshfield Insurance Investments A, LLC ("Insurance A")  
Managing Member: Marshfield Management A, LLC.  
Investment: Sole holding is an interest in Olympus Re Holdings, Ltd., a Bermuda-based reinsurance company.
- ❖ Marshfield Ursa Minor Fund, L.P. ("Ursa").  
General Partner: Constellation Partners, LLC  
Investment Advisor: Yogi Advisors, LLC  
Investment: Holds a mixture of publicly traded securities and interests in privately held companies. Typically holds investments long, but has participated in pair trades.
- ❖ Bushido Capital Fund LLC. ("Bushido")  
General Partner: Fields End Capital LLC  
Investment Advisor: Bushido Capital Partners  
Investment: Invests primarily (although not exclusively) in equity securities, corporate debt securities, equity and credit indexes, and derivative securities. The portfolio is a mix of long and short positions, and pair trades.

Apart from the above-described limited liability companies in which certain clients may own interests, and in which such clients invest exclusively at their own discretion, Marshfield does not provide any proprietary products for investment by clients.

**Marshfield's Procedures for side-by-side management of affiliated and core accounts:**

- If affiliated accounts trade in the same securities as client accounts, the trades will be done on an aggregated basis consistent with Marshfield's obligation of seeking best execution.
- The affiliated account and client accounts will share commission costs equally and receive securities at a total average price.
- Completed orders will be allocated as specified in the initial trade order.
- Partially filled orders will be allocated on a pro rata basis.

**Other Conflicts Between Core Accounts and Affiliated Accounts:**

- Trading in the same security but on different sides of the transaction.
  - An example may be due to different investment strategies and/or risk management
    - Research may direct a buy in Marshfield's Core Accounts to increase the holding to a new position size or the stock may be or come into buying price range for new accounts.
    - A sale of the same security is sold in an affiliated account as a risk management function because its designated position size grew due to the increase in value from its average cost basis.
- Marshfield's strategy as a long-only value equity manager vs. Affiliated Advisors whose strategies allow for other types of investments, such as:
  - Pair Trades.
    - This means there is a long position in one security and a short position in another security within the same sector; the theory is that the companies are overvalued/undervalued relative to one another and eventually their prices will converge.
    - Occasionally, Marshfield might hold a long position in a stock for its Core Product that is believed to be somewhat overvalued that an affiliated advisor shorts in a pair trade. It is not a conflict that Marshfield continues to hold that security long because while somewhat (though not excessively) overvalued, it would not meet the requirements to sell for the Core Product (see When We Sell under Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information). The theory of a pair trade is that the overvalued stock will decline and the undervalued security will appreciate in the *short term*.
  - Short Sales.
    - Only under a pair trade scenario would an affiliated Fund hold a security short that another affiliate or the Core Product holds long.

Marshfield will memorialize in their compliance files why the "conflict" situations were appropriate for all clients involved without being advantageous to one client over another.

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

### **The general principles governing the Code of Ethics**

Marshfield has adopted a rigorous Code of Ethics that governs all aspects of Marshfield's operations and applies to all employees of Marshfield, which includes, but is not limited to, the following:

- Where a conflict of interest may arise, Marshfield shall place the interests of its clients ahead of its own interest and those of its principals at all times.
- The employees of Marshfield shall act at all times in a manner that preserves and promotes Marshfield's reputation for honesty, integrity and professionalism.
- The employees of Marshfield shall not take improper advantage of their positions.
- The employees of Marshfield shall conduct their personal securities transactions in such a way as to avoid any actual or potential conflict of interest with Marshfield's clients and to avoid the abuse of such employee's position of trust and responsibility.
- The principals of Marshfield shall only buy for themselves what they buy for their clients and will hold a meaningful position in each Client Security.
  - Exceptions are made in extremely limited circumstances which are subject to approval by a majority of principals (e.g. inheritance, ownership of a private investment that might itself own publicly traded securities).
- The employees of Marshfield shall protect and hold confidential all information concerning the identity of clients, clients' securities holdings, and clients' personal and financial circumstances except when clients authorize disclosure.
- The employees of Marshfield shall protect and maintain independence in the investment decision-making process.

### **Personal Trading Policy**

Marshfield manages their employees' portfolio in the same manner as their clients' but requires that client transactions take priority. This process is to avoid any conflicts of interest that may arise from employees of Marshfield participating in the same trades that Marshfield recommends to and effects on behalf of its clients, such as employees of Marshfield obtaining a financial advantage from effecting a trade for themselves prior to effecting such trade on behalf of Marshfield's clients. Marshfield addresses these conflicts of interest by adhering to the following standards:

- While a new client trading program is in progress, Access Persons (as defined in Investment Advisers Rule 204A-1) generally may not trade in the security until the following trading day after the transactions for clients are completed.
- The transaction that was completed for clients will be offered to employees and executed the following trading day (and simply executed for Principals' accounts).
- All personal trades by Access Persons in non-restricted securities must be pre-cleared through Marshfield's Pre-Clearance Committee.
- In certain circumstances, a personal trade of an Access Person may be aggregated with client trades in accordance with Marshfield's Aggregation and Allocation Policy.

Marshfield's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Kim Vinick at 202-828-6200.

## **Item 12 - Brokerage Practices**

Marshfield does not take custody of client assets. Clients must hire a brokerage firm, bank or trust company to act as custodian of the client's securities.

1. If a client does not specify a brokerage firm to execute the client's orders, Marshfield may recommend certain unaffiliated custodians with which it has contractual relationships and has negotiated custodial services and rates for its clients. (Please see the discussion on Free Accounts below for more information).
  - Marshfield does not receive client referrals or compensation in exchange for these recommendations.
  - Factors Marshfield considers when recommending a firm for custody:
    - The execution, clearance and settlement capabilities of the custodian.
    - The custodian's financial stability.
    - Best net price, after giving effect to brokerage commissions and other transaction costs.
    - Nature of the security being traded or held.
    - Ability to provide account statements to clients on a monthly basis for comparison to reports Marshfield provides (see Item 13 – Review of Accounts).
2. Marshfield's clients may choose a broker-dealer as custodian of their securities and direct Marshfield to execute transactions only through their custodial broker-dealer. (Please see the discussion on Directed Accounts below for more information).
3. In rare situations, if a client asks for a referral to utilize a financial consultant in addition to a custodian for their securities, Marshfield may refer a client to a registered representative they have worked with in the past.
  - These are directed accounts (Please see the discussion on Directed Accounts below for more information).
  - Brokers who have referred new clients to Marshfield are often suggested, which may create a conflict of interest between the firm's desire to receive future referrals from the financial consultant (and the suggestion of that consultant to the client) and Marshfield's ability to seek best execution in that client account.
  - Marshfield requires that the commission rates charged to the client-directed brokerage accounts be negotiated between the client and the financial consultant regardless of whether the broker-dealer was suggested by Marshfield or not.

### **Brokerage Fees**

Clients may incur certain charges imposed by custodians, brokers, third party investment professionals and other third parties, such as custodial fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Such charges, fees and commissions are exclusive of and in addition to Marshfield's fee, and Marshfield shall not receive any portion of these commissions, fees, and costs.

Please see Item 5 – Fees and Compensation for additional information on Brokerage Fees.



## **Best Execution**

Marshfield strives to achieve best execution – *the best qualitative execution for the managed account* – for all client trades to the best of its abilities. Best execution does not necessarily mean that the client has the lowest total costs or proceeds in each transaction, but that they are most favorable under the circumstances. During the best execution review process, Compliance reviews trades, looking at price, commission, execution, trading errors (and resolution) and other factors.

## **Approved Broker List**

Marshfield maintains a list of approved brokers and brokerage firms with whom it may execute trades or transmit orders for its non-directed accounts. The factors considered include but are not limited to:

- **Execution Capability:**
  - Some brokers may have good execution capabilities with respect to large, exchange-listed equity block positions. The broker's ability to buy/sell without moving the market is critical.
  - Other brokers are more efficient in the execution of difficult orders in the over-the-counter market or fixed-income securities.
- **Commission Rate:**
  - Evaluation of commission rates charged by a broker is an integral part of evaluating order execution.
  - Commission rates may be a function of the size of the order, the price of the security, the degree of difficulty or liquidity, the volume of transactions placed (historically) with a broker and whether the receipt of goods or services is involved.
  - When all other factors are equal, we will always seek to minimize execution costs.
  - We do not have the ability to negotiate with accounts that direct their custody and brokers (see the discussion on Directed Accounts for more information).
- **Financial Stability:**
  - We will consider the capital strength, reputation and financial stability of a broker when making best execution decisions.
- **Responsiveness to Money Manager:**
  - Responsiveness includes such factors as willingness and ability of a broker to take financial risks in the facilitation of large block transactions.
  - How accommodating, in general, a broker is to facilitating Marshfield's business needs.
- **Value of Research Provided:**
  - If all things are equal, trades may be directed to certain brokers who provide market-related research that is used when implementing the investment decisions made by the Research Team who have done their own research regarding companies and securities.
  - Marshfield does not currently use or accept soft dollars for payment of research or services.

## **Types of Accounts:**

- “Free accounts” (non-directed):
  - Accounts where the client has granted Marshfield broker discretion.
  - Marshfield has the option to pursue trades through brokers on its approved broker list.
  - Accounts provide Marshfield the ability to seek best execution.
  - Marshfield does not direct "free account" transactions to a particular broker-dealer in return for client referrals.
- “Directed accounts”:
  - Accounts may not benefit from best execution.
  - Trades are executed through the broker chosen by the client, at rates negotiated by the client.
  - Prime Brokerage Ineligible Accounts:
    - Marshfield is unable to pursue trades with brokers other than the client's custodian due to minimum account value requirement of \$125,000.
    - \$125,000 custodian minimum requirement.
    - Accounts can be at a custodian Marshfield recommended in order to facilitate trading of such prime broker ineligible accounts.

## **Best Execution and Directed Accounts**

Marshfield's clients may utilize a broker-dealer as custodian of their securities and direct Marshfield to execute transactions only through their custodial broker-dealer. Below are the characteristics to be aware of with Directed Accounts:

- Clients, not Marshfield, must negotiate their own commission rates and other fees with such brokers or dealers.
- Clients should consider the results of such designations, for example:
  - Client may pay higher commissions or receive less favorable executions.
  - Clients may negotiate fees that could result in a discount from their standard commission rate in exchange for brokerage and custodial services.
- Clients may miss out on limited participation opportunities such as IPOs or secondary market purchases for which allocation to outside brokers may not be easily accomplished.
- Clients who direct the use of a broker-dealer may also be subject to certain disadvantages discussed further in the Aggregation of Orders section below.
- Clients may change their broker-dealer at their discretion.
- Marshfield reserves the right to decline continued management of an account placed with a broker-dealer that Marshfield deems burdensome to work with.

## **Marshfield's Aggregation Policy**

It is Marshfield's practice, where feasible, to aggregate orders for execution as a single transaction for the purchase or sale of a particular security for numerous accounts. Marshfield believes that aggregating orders enables them to treat all clients in a fair and equitable manner over time.

Aggregation of orders will only be effected when Marshfield believes that to do so will be in the best interests of the affected clients. Trades for Core Account clients may be aggregated with trades for any of the unregistered investment funds managed by the Advisor or an affiliate, or with proprietary, including employee, trades where the Adviser's best execution and personal trading policies will allow.

## **Marshfield's Aggregation Procedures**

In general, and to the extent possible, all orders for execution of the same security will be aggregated during the same trading period. Once a trade is specified by the research team and the total number of shares required is derived, the trades are generally divided into two groups for execution, in the following order:

### **1. Free Accounts**

- Marshfield allocates pro-rata among non-directed accounts.
- If an order is filled in its entirety, each participating client receives/sells its allotted shares at the average share price.
- Transaction costs are shared pro-rata based on each client's participation in the transaction.
- If an order is not filled in its entirety during a single trade day, it may be allocated pro-rata among all participating clients unless there are only a few shares executed, in which case the trade may be allocated according to a randomized rotational basis so that over time each client is treated fairly.

### **2. Directed Accounts**

- Because clients who have directed accounts must negotiate their rates with those broker-dealers, Marshfield is precluded from negotiating further volume discounts which may be available from batching client orders.
- Marshfield will make every effort to maximize the best execution for the client under these circumstances by using limits when entering orders and monitoring executions.
- Marshfield will block trades when clients share a directed broker and pro-rate partial executions where possible, except when clients have negotiated commission rates making this punitive.
- The fact that many clients have individually negotiated commission rates with their designated broker-dealers means that some clients may pay a higher commission than others who have aggregated their orders or negotiated more favorable commission rates.

## **Research and other Soft Dollar Arrangements**

Marshfield does its own research for five primary reasons:

- The information Marshfield looks for is different from what most sell-side analysts are looking for; we believe that you cannot understand a company simply by putting together an elaborate excel spreadsheet.
- We are not subject to the conflicts of interest endemic to the analyst/investment bank/client ecosystem.
- We prefer to keep control over our intellectual property, as proprietary information confers a competitive advantage.
- Understanding a company in depth allows for good decisions to be made while under stress.
- We trust our own judgment.

Marshfield does not engage in any soft-dollar arrangements.

- Marshfield has a small number of directed accounts that participate in commission recapture programs. The commissions recaptured are to the benefit of the specific client and done only when directed by a client.

## **Item 13 - Review of Accounts**

### **Decision-Makers**

The research team makes investment decisions on behalf of the entire firm which are to be executed in every client account, absent account-specific restrictions.

- Team consists of three principals, a research analyst and a consultant.
- On a weekly basis, a member of the research team reviews firm-wide trades to confirm that buy-versus-sell and specific price limit instructions have been interpreted correctly and followed.

### **Trading Team**

The trading team implements the orders received from the research team. Before green-lighting an account to participate in the trade, they:

- Put together the trade sheet.
- Review cash balances, asset allocation and existing positions.
- If there are any policy restrictions, the assistant portfolio manager reviews the account for its ability to participate in the trade.

Portfolios are monitored on an ongoing basis by the trading team to ensure compliance with Marshfield-directed absolute position sizes (positions are pared back should they exceed our internally-generated guidelines).

### **Relationship Managers**

Each account is assigned an individual relationship manager who may meet or consult with clients on a periodic basis or at the request of the client. Relationship managers will review the client's investment objectives, discuss Marshfield's investment philosophy (and its application to individual securities holdings), and answer client questions.

- Six of the eight professionals who serve as relationship managers are principals. The other two professionals who serve as relationship managers are senior members of Marshfield's staff.
- Each is assigned a group of client relationships (between 5-200 per manager).

### **Monthly Reviews**

- Each account is reviewed monthly by a portfolio administrator to ensure that the account's custodian's list of positions matches what Marshfield shows on its portfolio accounting software.
- Portfolios with policies are reviewed by our assistant portfolio manager for continued compliance with policies.

### **Quarterly Reviews**

- On a quarterly basis, every Marshfield account is reviewed by our assistant portfolio manager and one of our principals to confirm asset allocation and position sizes.
- Quarterly Reporting Materials:
  - Letter to Clients
    - Marshfield's interpretation of the ending quarter's current market environment within the context of Marshfield's holdings and philosophy.
  - Formal portfolio appraisals
    - Include the amount of each security held, unit cost, total cost, market price, market value, market value as a percentage of assets, and current yield.
  - Performance information is provided once an account has been managed for a full quarter.
  - Year-end reports include information on income received, expenses, and realized gains and losses.

### **Quarterly Reports for Wrap Clients**

- It is at the discretion of the broker for the Consulting Solutions accounts as to what communication they and their clients receive from Marshfield.
  - Communications can include: newsletters and quarterly letters and reports, all of which are written.
- Performance is provided by the custodian, not Marshfield, unless requested by the broker originating the account.

### **Non-Scheduled Reviews of Accounts**

- When a client informs Marshfield of any material changes in a client's investment objectives.
- On an ad hoc basis when requested by a client.

### **Ad Hoc Communication with Clients**

- Newsletters
  - Marshfield uses these periodic letters as an opportunity to communicate directly with clients and offer insights into its thought process, decision-making process, reactions and interpretations of market events both generally and in relation to Marshfield holdings, as well as reflection on successes, mistakes or other pertinent matters.
  - These letters are generally written four times per year, and are not intended as recommendations nor a guarantee of future results.

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

### **Client Referrals**

Marshfield has arrangements whereby it has agreed to pay qualified parties a mutually acceptable percentage of the investment advisory fees charged to clients referred to Marshfield by such persons.

These payments for referrals do not increase the advisory fees charged to clients referred to Marshfield by such persons and are disclosed to clients in accordance with, and are otherwise in compliance with, Rule 206(4)-3 under the Advisers Act.

## **Custody**

Marshfield does not custody client assets.

Clients should receive, at least quarterly, statements from the broker-dealer, bank or other qualified custodian that holds and maintains client's investment assets. Marshfield urges clients to carefully review such statements and compare such official custodial records to the account statements that Marshfield provides quarterly. Marshfield's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 - Investment Discretion**

Marshfield generally requires a client to provide it with full discretionary authority to determine the securities to be bought or sold and the amounts thereof.

The Investment Management Agreement between Marshfield and each client provides discretionary authority to Marshfield. Clients also must grant discretion to Marshfield via paperwork to establish their custodial accounts which will allow Marshfield the ability to effect trades in their account on their behalf.

### **Discretionary Limitations**

It is the client's obligation to inform Marshfield, *in writing*, of any changes to their investment objectives, policies or limitations or restrictions which may include:

- Restricting or prohibiting transactions in certain types of securities or industries.
- Requiring that positions transferred into a managed account be held either for tax or other reasons specific to the account or client.
- The applicable fiduciary obligations imposed by the law with respect to any such client.
- The amount and nature of assets contained in the client's account.

### **Unsupervised Positions**

Marshfield will allow clients, in limited circumstances, to keep securities – either Marshfield Core Securities or other securities – in an “unsupervised” portion of their account, where Marshfield will accept client instructions to purchase or sell securities on behalf of clients.

- Transactions are effected on a non-discretionary basis and are generally held in a separate “unsupervised” section of the portfolio.
- Marshfield must receive written instruction from the client in order to execute any transaction.
- Unsupervised portions of the portfolio are not managed on a discretionary basis pursuant to Marshfield's recommendations.
- No management fees are assessed on the unsupervised portion.
- Unsupervised assets are not included in reported portfolio performance.

## **Item 17 - Voting Client Securities**

### **Proxy Voting**

- Marshfield will vote client proxies consistent with general guidelines that Marshfield has adopted, taking into consideration all relevant facts and circumstances at the time of the vote that reflect the best interests of its clients (unless specifically otherwise instructed by a client).
- Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders.
- Marshfield also reserves the right to refrain from voting proxies unless otherwise instructed by clients or required to do so by law or regulation.
- Clients may direct Marshfield on how to vote their proxies or give specific guidelines that should be followed by providing written instruction.

### **ERISA Consideration**

- In addition to the above, Marshfield will refer to any guidelines or directions issued by Plan's trustees in voting client proxies.

### **Proxy Voting Conflicts of Interest**

1. If there is a conflicted vote, the Voting Manager will either vote the proxy in accordance with the recommendation from RiskMetrics, or abstain from voting the proxy, after determining what is in the best interest of the client.
2. If no recommendation is available, the Voting Manager (or Proxy Voting Coordinator, as directed by the Voting Manager) will refer the vote back to the client, disclosing the conflict of interest. The Voting Manager will then vote the proxy according to the direction of the client.

Marshfield has adopted policies and procedures regarding the voting of proxies as required under Rule 206(4)-6 under the Advisers Act. Marshfield will provide to any client at no cost a copy of its full proxy voting policies and procedures and information regarding how such client's proxies have been voted in the past. Clients wishing to receive this information should contact Marshfield at 202-828-6200 during normal business hours.

### **Class Action Lawsuits**

It is not Marshfield's policy to file on behalf of its clients for class action lawsuits. Marshfield will assist clients in gathering the information necessary for them to file, should they so choose.

## **Item 18 - Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Marshfield's financial condition.

Marshfield has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.