

Item 1 – Cover Page

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This brochure provides information about the qualifications and business practices of Sprucegrove Investment Management Ltd. (“Sprucegrove”, “us”, “we”, “our”). If you have any questions about the contents of this brochure, please contact us at (416) 363-5854 and/or info@sprucegrove.ca. 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.

Additional information about Sprucegrove is also available at the SEC’s website www.adviserinfo.sec.gov (click on the link, select “investment adviser firm” and type in our firm name). Results will provide you both Parts 1 and 2 of our Form ADV.

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training.

Item 2 – Material Changes

Since the last annual amendment to our Brochure, Sprucegrove has been hired as a sub-adviser to the KP Callan International Equity Fund (“KP Fund”), specifically the Active International Equity #3 Sub-strategy. The primary objective for the Sub-strategy is to generate a rate of return that exceeds that of the MSCI EAFE Index over a full market cycle.

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Item 4 – Advisory Business

Description of Advisory Services:

Overview of Sprucegrove

Sprucegrove was founded in 1993 by three individuals (Peter Clark, Ian Fyfe, John Watson), who had worked together for 15 years in investment operations at Confederation Life Insurance Company (Confed). During that period they had developed and managed the international investment services for the Canadian and U.S. based clients of Confed.

Confed retained Sprucegrove to sub-advise their pooled investment funds, thus providing continuity in the management of the international equity assets. At the same time, the remaining members of the Confed international equity team became employees of Sprucegrove, and Sprucegrove obtained all research files and all proprietary equity software and systems from Confed. As part of the arrangement, Sprucegrove also acquired the Canadian international equity separate account business. In 1994, Confed was ordered to be wound up and Sprucegrove purchased the international sub-advisory service from Confed and established its own pooled investment funds. By the end of the second quarter of 1995, virtually all the international equity clients, who were invested in the U.S. and Canadian Confederation Life Pooled investment funds, elected to transfer into new Sprucegrove pooled investment funds.

Sprucegrove provides advisory services on a fully discretionary basis, managing International, Global, All Country World and All Country World ex U.S. equity mandates for clients in Canada and the United States from our office in Toronto, Ontario, Canada. Since the inception of the firm, Sprucegrove has followed the same disciplined bottom-up value investment philosophy and process on which it was founded. We strive to invest in high quality companies selling at attractive valuations. As a value manager, we believe that markets are often inefficient and that through our fundamental internal research, a disciplined process to utilize that research and by maintaining a long-term perspective, we can capitalize on mispricing in the market. Country and sector exposures are a residual of this stock-selection process.

We provide our advisory services to private investment funds and to separately managed accounts, including in the capacity as sub-adviser to third party funds. We offer our advisory services in Canada and in the United States. This brochure focuses on the advisory services offered to United States clients.

Our firm is a private company that is 100% employee owned. At December 31, 2017, we had 38 full-time employees. There is no principal owner (greater than 25%).

Assets Under Management

As at December 31, 2017, Sprucegrove had \$16,102 million assets under management on a discretionary basis under the following mandates:

Mandate (\$millions)	Canada Clients	United States Clients	Total
International Equities	3,857	10,314	14,171
Global Equities	1,720	-	1,720
US Equities	7.0	-	7.0
All Country World	204	0	204
Total	5,788	10,314	16,102

Item 5 – Fees and Compensation

The fee schedules for the different types of clients are described below. Advisory fees generally are not negotiable.

SEPARATE ACCOUNT FEES

Market Value of Client's		
<u>Total Investment Accounts</u>		<u>Fees</u>
First	\$25,000,000	.70%
Next	\$25,000,000	.60%
Next	\$25,000,000	.50%
Next	\$225,000,000	.25%
Excess Over	\$300,000,000	.20%

Separate account clients are billed quarterly in arrears. The fees for assets that are not managed for a full quarter are prorated.

SPRUCEGROVE PRIVATE INVESTMENT FUND FEES

The advisory fees for the private investment funds are:

Market Value of Unitholder's		
<u>Total Investment Accounts</u>		<u>Fees</u>
First	\$ 5,000,000	.70%
Next	\$10,000,000	.65%
Next	\$25,000,000	.55%
Next	\$35,000,000	.50%
Next	\$225,000,000	.25%
Excess Over	\$300,000,000	.20%

Investors in the fund bear these fees and are billed monthly in arrears. Investors have the choice of paying fees by making a direct payment to Sprucegrove or selling units in the fund to pay the fee.

SPRUCEGROVE COLLECTIVE INVESTMENT TRUST FEES

The advisory fees for the collective investment trust Class A units to Class E units are:

Class	Market Value of Unitholder's	Fees
	Total Investment Accounts	
Class A	\$0 < \$15,000,000	.70%
Class B	\$15,000,000 < \$50,000,000	.60%
Class C	\$50,000,000 < \$100,000,000	.55%
Class D	\$100,000,000 < \$400,000,000	.35%
Class E	Over \$400,000,000	.25%

For Class A units to Class E units , the trust accrues the fees daily and pays monthly in arrears. The advisory fees for the collective investment trusts Class G units are:

	Market Value of Unitholder's	Fees
	Total Investment Accounts	
First	\$ 5,000,000	.70%
Next	\$10,000,000	.65%
Next	\$25,000,000	.55%
Next	\$35,000,000	.50%
Next	\$225,000,000	.25%
Excess Over	\$300,000,000	.20%

For Class G units, investors in the trust bear these fees and are billed monthly in arrears. Investors have the choice of paying fees by making a direct payment to Sprucegrove or selling units in the trust to pay the fee.

SUB-ADVISED MUTUAL FUND

Average Daily Net Assets Sub-advised by Sprucegrove Fees

First	\$25,000,000	.70%
Next	\$25,000,000	.60%
Next	\$25,000,000	.50%
Next	\$225,000,000	.25%
Excess Over	\$300,000,000	.20%

Additional Fees and Expenses

Fees, transaction charges and other expenses for the private investment funds are described in greater detail in the governing documents for the applicable fund.

Clients also will incur brokerage and other transaction costs that are payable to third parties. Depending on the type of client and account, there may be additional third party expenses for custodial fees, trustee fees, wire transfer and electronic fund fees, audit fees and other expenses incurred in the course of the investment and administrative activity associated with the particular client account. In addition, certain private investment funds may charge up to 0.50% to any individual or series of deposits or redemptions by a unitholder that exceeds \$5 million to cover the costs of transactions, which amount will be retained by the applicable fund and is not payable to Sprucegrove..

In the event Sprucegrove establishes and/or provides investment supervisory services to other collective investment vehicles, including limited partnerships, limited liability companies, and business or investment trusts for investors, we reserve the right to establish fee scales that differ from those described above.

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

With the exception of one longstanding separate account client relationship, Sprucegrove does not charge advisory fees based on a share of the capital appreciation of, or capital gains on, the funds or securities in a client account (so-called performance based fees).

Item 7 – Types of Clients

We provide our advisory services to private investment funds and to separately managed accounts, including in the capacity as sub-adviser to third party funds.

Our separate account clients include;

- Pension and profit sharing plans
- Trusts, estates and charitable organizations
- Corporations or other business entities
- Registered investment companies
- Collective investment trusts
- High net worth individuals

For separate accounts, we are able to tailor our advisory services to the individual needs of clients. Examples would include adjusting our standard investment guidelines to accommodate client mandate, holdings or SRI restrictions.

The minimum capital required to open a separate account is \$50 million, which we can waive in our discretion. Each private investment fund has a minimum subscription amount that is set out in the offering document for the fund.

We intend to remain a relatively small firm and may periodically take measures to control our growth. In the past, when we have elected to not accept new clients, we have continued to receive deposits from existing clients. This decision is reviewed annually.

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

Investment philosophy, strategy, and investment style for the product

Sprucegrove is a value manager, following a bottom-up approach, and seeking to invest in quality companies selling at attractive valuations.

Significant features of our approach include:

- Investing in equities of companies in global markets;
- Investing in equities believed to offer attractive long-term rates of return;
- Emphasis on the long term and a focus on the selection of individual common stocks using a bottom-up approach utilizing thorough internal research;
- Companies selected for investment must meet standards regarding historic financial performance, financial position, quality of management, and a growth potential in terms of sales, earnings, and share price;
- A sell discipline which focuses on two major criteria: (i) an adverse change in fundamentals, i.e. the company no longer meets our quality criteria, and (ii) a stock price that rises to a level that we believe exceeds the company's intrinsic value.

In searching for investments, we analyze stocks using the following criteria:

- Leadership position in share of market and technology;
- History of above-average profitability as measured by operating margins and return on common equity;
- Strong financial position;
- The opportunity for growth via new products, markets, and/or market share;
- Management, including its consistency, experience, record, reputation, corporate governance practices and commitment to the business.

Important valuation and quality metrics we consider include:

- Normalized price earnings multiple
- Price to book value ratio
- Dividend yield
- Financial leverage ratio
- Projected return on equity

We address portfolio risk through our diversification guidelines regarding region, country, sector, and individual company weightings, which are relative to a benchmark index. Our

region guidelines set the minimum number of countries in each region. Our country guidelines set minimum and maximum weightings for eligible countries. Our sector guidelines establish a minimum representation in market sectors and a maximum exposure in any one sector. Our individual company guidelines set minimums for the number of holdings in a portfolio, and maximums for company ownership, free float and weightings of individual holdings.

Risk of Loss

All investments in securities include a risk of loss of principal (invested amount) and any profits that have not been realized (the securities were not sold to “lock in” the profit).

- **General Equities Securities Risk:** Investing in an equity security entails the risk of negative events relative to the issuer such as the actual or perceived impairment of the issuer’s financial condition or adverse changes in the general condition of the relevant stock market sector or the stock market as whole, that could cause the value of a client’s holding in that security to decline. Equity securities are considered to be more risky than debt obligations, as debt holders receive priority over equity holders in the event of an issuer’s liquidation. Furthermore, there are more uncertainties surrounding securities with regards to cash flows to the equity holder (i.e. dividends) as opposed to debt holders (i.e. interest payments and return of principal). Equity markets will fluctuate with changes in actual and expected financial conditions of the general economy and their constituent securities.
- **Foreign Market Risk:** Investments in non-U.S. equity securities may be subject to risks not normally associated with U.S equity investing. Such risks may include: a less stringent regulatory environment, less rigorous financial reporting requirements, potential government intervention, expropriation, high rates of withholding tax and additional economic and political factors particular to the countries of investment. Additionally, the equity markets of certain foreign countries may be subject to lower trading volume and higher fluctuations in price movements.
- **Foreign Currency Risk:** Depreciation of foreign currencies in which client holdings are denominated relative to the U.S. dollar will negatively affect the U.S. dollar value of those holding.

- **Emerging Market Risk:** The risks described in the Foreign Market and Foreign Currency Risk sections are normally magnified for investments in emerging markets. Such risks may include; greater market volatility, lower trading volume, political and economic instability, unfavorable legal structures relating to foreign investments, risk of hyperinflation or severe unemployment and currency devaluation. One or more of these risks could negatively impact returns or result in higher trading fees for client investments in emerging markets.
- **Geographic Risk:** Client investments may be made in countries or regions that have experienced natural disasters such as earthquakes and drought and may be more economically sensitive to environmental events than developed markets. The occurrence of such events in these countries or regions could negatively impact the performance of client holdings there.
- **Depository Receipt Risk:** Client investments in non-U.S. issuers may be in the form of American Depositary Receipts (ADR), which are instruments issued or sponsored in the U.S. by banks or brokerages and traded in U.S. securities markets. ADR's represent an interest in a specified number of shares of a foreign issuer. Fees and expenses related to holding these securities along with fluctuations in foreign exchange rates and tax treaties could cause an ADR to be of lesser value than its underlying foreign security. An ADR may also entail the risk of loss as a result of the fact they may offer fewer legal rights than the underlying foreign security or that the ADR's issuer changes its terms or terminates the ADR altogether.
- **Securities Lending:** A client account that engages in securities lending could suffer losses if a borrower of its securities defaulted on its obligation to return those securities or from losses in the value of collateral investment programs.

Item 9 – Disciplinary Information

Not applicable.

Item 10 – Other Financial Industry Activities and Affiliations

Not applicable.

Item 11 – Code of Ethics

As required by regulation, we have adopted a Code of Ethics (the “Code”) that governs a number of potential conflicts of interest we have when providing our advisory services. The Code is designed to ensure we meet our fiduciary obligation to clients and to promote a culture of compliance within our firm.

Our Code is comprehensive and applies to all of our principals and employees. The Code is distributed to each employee at the time of hire and at least annually. We also supplement the Code with bi-annual training and on-going monitoring of employee activity.

Our Code includes the following:

- Requirements to:
 - Protect the confidentiality of client information;
 - Comply with all applicable laws, rules and regulations
 - Abide by the CFA Institute Asset Manager Code
 - report any violation or potential violation of the Code or applicable laws to the Chief Compliance Officer
- Prohibitions on insider trading (if we are in possession of material, non-public information);
- Restrictions on the giving or receipt of gifts and gratuities;
- Pre-approval of personal trading of restricted securities which are securities we hold, or are under consideration as holdings;
- Reporting of all personal securities transactions; and,
- On an annual basis, we require all principals and employees to re-certify their understanding and compliance with our Code and to identify any account which they have a beneficial ownership (they “own” the account or have “authority” over the account).

Our Code does not prohibit personal trading by principals or employees. As employees of a professional investment adviser, we may follow our own advice and purchase or sell the same or similar securities traded in client accounts. This practice may give rise to conflicts of interest because it creates the opportunity to act on information regarding client trades in a manner that would favor the interests of the principal or employee over those of the client. The Code addresses these potential conflicts of interest by requiring principals and employees to obtain pre-approval for any such transactions with the Chief Compliance Officer. In addition, reports of personal securities transactions by principals or employees are subject to periodic review for compliance with the Code.

You may request a complete copy of our Code (entitled Standards of Professional Conduct) by contacting us at the address, telephone or email on the cover page of this Part 2; attn.: Chief Compliance Officer.

Item 12 – Brokerage Practices

General Considerations – selecting / recommending brokers for Client transactions and commission charges:

General Considerations in Selecting Brokers for Client Transactions

Sprucegrove is authorized to select the brokers and dealers to be used for execution of client transactions. When doing so it seeks to achieve best execution for those transactions, which generally means the most favorable cost or net proceeds reasonably obtainable under the circumstances, subject to the considerations noted below relating to soft dollars.

In evaluating whether it believes a broker-dealer, whether full service or execution-only (or as appropriate, an electronic communications network or other alternative trading system), can provide best execution for a client transaction, Sprucegrove will take into account a range of considerations, which may include: execution capability; commission rate; responsiveness; financial responsibility; trading experience, reputation and integrity; facilities, equipment, technology and infrastructure; opportunities for price improvement; the speed and likelihood of successful execution; advice on improving order and execution efficiency; reliability in executing trades; recordkeeping and reporting; order timing and size; the nature of the security being purchased or sold; historical and anticipated liquidity, trading volume and price volatility for the security being purchased or sold; current market conditions; market depth; recent order flow; capacity to handle unusual trading volume; access to underwritten offerings and secondary markets; willingness to accommodate special needs such as directed brokerage requests; swift resolution of trade errors and fairness in resolving disputes; confidentiality and discretion; availability of accurate information affecting choices as to the most favorable market center for execution and of technology aids to process such information; knowledge of the other side of a trade, quality and cost of services available from alternative broker-dealers; and market makers and market centers, and the cost and difficulty associated with achieving an execution in a particular market center.

We use a broker ranking system to assist in allocating our commission spending. Our ranking system includes input from our analysts, portfolio managers and our trader. All brokers are ranked on best execution including market specialization, historical execution quality and competitiveness of commission rates. Full service brokers are also ranked on the value of their research, ability to provide access to company management and generation of useful investment ideas. Rankings are monitored on an ongoing basis.

Soft Dollars

In selecting a broker-dealer to execute client transactions, Sprucegrove may take into consideration the fact that the broker-dealer will provide research services (“soft dollar benefits”) in accordance with Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)”), which permits an investment adviser to cause a client account to pay a higher commission to a broker that provides brokerage and/or research services than the commission another broker would charge, provided the adviser determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and/or research services provided. Sprucegrove uses soft dollar research services it receives in managing client accounts. Sprucegrove limits soft dollar research services it receives to those that are proprietary to the broker-dealers executing client transactions, which include recommendations; reports; analysis; telephone contacts and personal meetings with security analysts, corporate and industry executives and other persons with relevant information and/or expertise; and structuring of transactions and/or investment programs. Sprucegrove relies primarily on its own internal research, but believes that proprietary research received from broker-dealers can be a valuable adjunct to its internal efforts and can provide information and insights that would not otherwise be available to it. Sprucegrove does not seek or receive soft dollar benefits in the form of third party research products or services.

In the most recently completed fiscal year, Sprucegrove received the following types of soft dollar benefits from broker-dealers executing client transactions: Soft dollar research received included reports on national and international economic conditions, industries, groups of securities, individual companies; related statistical information; securities law, market regulation, accounting and tax law interpretations; analysis regarding political developments, legal developments affecting portfolio securities and technical market action; pricing and appraisal services; credit analysis; risk measurement analysis; performance analysis; and analysis of corporate responsibility issue. Services received also included access to individuals with expertise in, and/or information regarding, various industries, businesses, or other related areas. Soft dollar research was received primarily in the form of written reports, computer generated services, telephone contacts, and personal meetings.

To the extent that Sprucegrove receives research as a soft dollar benefit, it is relieved of the cost of generating or purchasing that research, which may give Sprucegrove an incentive to select a broker-dealer based on its interest in receiving soft dollar research, rather than on its clients’ interest in receiving most favorable execution. Research received by Sprucegrove as a soft dollar benefit is generally used by it in connection with some or all of its client accounts and not just the account or accounts whose commissions generated the

benefit. Sprucegrove does not seek to allocate soft dollar research to the clients whose commissions have generated that research. Sprucegrove's soft dollar practices may cause clients to pay higher brokerage commissions in connection with trades for their accounts than would otherwise be the case. Sprucegrove has estimated the value of the benefits received from soft dollar transactions to be approximately 1 basis point of the total assets under management.

Sprucegrove claims compliance with the CFA Institute Soft Dollar Standards. Additional information concerning Sprucegrove's Soft Dollar Arrangements is available to clients upon request.

Directed Brokerage

Sprucegrove may, at the request of a separate account client in writing, direct brokerage transactions undertaken on behalf of that client to a broker specified by the client. Sprucegrove reserves the right to limit the extent to which a client may designate brokers or dealers for the execution of their transactions. We generally participate in client directed brokerage arrangements to a limit of 25% of commissions generated by that client as long as it does not adversely impact our trading execution. A client account that directs brokerage will not receive any benefits from participating in aggregate trades with other clients (as discussed below) and may otherwise receive less favorable execution than if it had permitted Sprucegrove to place the account's trades.

Trade Aggregation

Orders entered for a specific security for multiple clients are consolidated for execution at the same price. Order fills are allocated daily on a pro rata basis at the average fill price for that day. However, partial order fills on a day may be allocated to a selection of those clients if such prorating would be uneconomic for one or more participating accounts, given minimum board lot sizes and client transaction costs. We attempt to ensure that such partial fills are allocated such that no client or class of clients is given preference.

Allocation of Investment Opportunities

Differences in the advisory fees paid by client accounts may create an incentive to allocate investments viewed as having greater potential to client accounts that pay higher advisory fees. Sprucegrove has adopted investment allocation policies designed to ensure equal and fair treatment of all client accounts with respect to investment opportunities. If the

demand expressed on behalf of client accounts exceeds the amount of securities made available for investment by Sprucegrove clients, e.g., in a public offering, the available securities will be allocated among interested client accounts using the same pro rata allocation method for partial fills in aggregated trades discussed above. The allocation of investment opportunities among client accounts is reviewed on a periodic basis to ensure compliance with the goals of the investment allocation policy.

Item 13 – Review of Accounts

Sprucegrove utilizes a team approach to portfolio management. Our portfolio management team is presently comprised of three portfolio managers. Each of these individuals collectively participates in and contributes to the management of all the portfolios we manage for our clients. The team as a whole is responsible for the investment decisions. Each morning current portfolio holdings are distributed to the portfolio managers for their review. Accounts are reviewed by the portfolio managers on an ongoing basis as part of the day-to-day management of the portfolio.

Portfolio performance is reviewed on a quarterly basis and measured against market index benchmarks (e.g. MSCI EAFE, MSCI World, S&P 500), or on a quarterly, annual and moving three and five year basis. The quarterly focus of the reviews is for consistency among the accounts under management with similar investment objectives and constraints, while the performance emphasis lies on the longer-term results.

The custodian is the official record keeper for all client accounts. With respect to the pooled investment funds, “Statements of Account” are produced by the custodian and sent to all unitholders monthly. The Statements of Accounts include a statement of units held, market value of units and transactions for the month. Separate account clients have direct access to their custodian records.

Sprucegrove provides a “Quarterly Portfolio Review Report” to all clients and investors in the private investment funds. The report reviews the fund performance returns, transactions and investment strategy and market highlights. It also provides various fund breakdowns by country, sector and market and comparisons to the fund benchmark.

Item 14 – Client Referrals and Other Compensation

Sprucegrove has entered into a consulting agreement with a consultant to assist Sprucegrove in marketing its investment advisory services in the United States. Sprucegrove compensates the consultant for his services pursuant to a written agreement in accordance with Rule 206(4)-3. Clients referred to Sprucegrove by the consultant do not pay higher fees to Sprucegrove as a result of being referred by the consultant and such clients should refer to the consultant's disclosure statement for further details.

Item 15 – Custody

Separate account clients appoint their own custodian and receive account records directly from their custodian.

All assets of the private investment funds are held in custody by a qualified custodian. Each pooled investment fund has engaged a nationally-recognized, independent public accounting firm to conduct an annual audit of the fund, and audited financial statements prepared in accordance with generally accepted accounting principles are provided to investors in the fund on an annual basis.

We maintain our own internal investment system records to facilitate our portfolio management of accounts. These internal records will differ from the records maintained by the custodians. Differences occur primarily due to internal assumptions in the timing of transactions and currency conversion rates. The custodial records serve as the official account records for both private investment funds and separate accounts. We perform a detailed monthly reconciliation of our internal records to the official custodial records.

Item 16 – Investment Discretion

Sprucegrove acts as an advisor to clients under fully discretionary investment management agreements, which permit us to act at our discretion without first obtaining a client's prior consent. The agreements specify an investment mandate and such guideline restrictions as are mutually agreed to.

Sprucegrove's private investment funds are subject to the mandate and investment guidelines established in advance by Sprucegrove. Separate accounts have additional flexibility to accommodate a client's special requirements that we mutually agree to.

Item 17 – Voting Client Securities (i.e., Proxy Voting)

Sprucegrove has authority to vote proxies for its pooled investment funds. We also often have authority to vote proxies for our separate account clients, unless they elect to do their own voting.

The CFA Institute has published guidelines relating to proxy voting that Sprucegrove follows. In general, Sprucegrove will support resolutions that in our judgment will maximize returns to our clients over the long term. We support the adoption of high standards of corporate governance and ethics by companies we invest in.

Sprucegrove subscribes to two advisory services to assist in the analysis of global proxy issues:

- PIRC (Pension Investment Research Consultants)
- ISS

We also subscribe to Global Proxy Watch, a weekly newsletter covering international corporate governance issues.

A potential conflict of interest for Sprucegrove could arise given the opportunity to vote client securities in its own interest, e.g., by agreeing to certain corporate actions for the purpose of getting or maintaining the soliciting issuer as a client. To address such conflicts, our proxy voting policy requires all proxies to be voted in the best interests of clients and specifies guidelines on voting with respect to a range of proxy voting issues. Any departure from the voting guidelines must be documented along with the reasons for the departure; these exceptions are reviewed on a periodic basis to ensure that the goals of the proxy voting policies are being met.

Sprucegrove maintains records of how it votes proxies. We provide our Proxy Voting Guidelines to all our clients annually and we provide a proxy voting report to clients who request it in writing from the Chief Compliance Officer.

Clients that do not give Sprucegrove proxy voting authority will receive proxies and other solicitations relating to their accounts directly from their custodians, and may contact Sprucegrove with questions about any particular solicitation.

Item 18 – Financial Information

Not applicable.