

Sprucegrove Investment Management Ltd.

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Form ADV, Part 2; our "Disclosure Brochure" or "Brochure" as required by the Investment Advisers Act of 1940 is a very important document between Clients (you, your) and "Sprucegrove" (us, we, our). This Brochure provides information about our qualifications and business practices.

This brochure provides information about the qualifications and business practices of Sprucegrove Investment Management Ltd. ("Sprucegrove"). If you have any questions about the contents of this brochure, please contact us at (416) 363-5854 and/or bmurphy@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 Part 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

This document differs from the Form ADV Part II brochure that Sprucegrove has prepared in the past because of changes the SEC has made to Form ADV. One of the principal changes under the new requirements is that information about Sprucegrove is now provided in a narrative format in this Form ADV Part 2A brochure. Much of the disclosure in this brochure is substantially the same as corresponding disclosures in Sprucegrove's most recent Part II brochure.

Item 3 -Table of Contents

Item 1 – Cover Page.....	
Item 2 – Material Changes.....	i
Item 3 -Table of Contents	ii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation.....	3
Item 6 – Performance-Based Fees and Side-By-Side Management.....	5
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9 – Disciplinary Information.....	10
Item 10 – Other Financial Industry Activities and Affiliations.....	11
Item 11 – Code of Ethics	12
Item 12 – Brokerage Practices	14
Item 13 – Review of Accounts.....	17
Item 14 – Client Referrals and Other Compensation	18
Item 15 – Custody	19
Item 16 – Investment Discretion.....	20
Item 17 – Voting Client Securities (i.e., Proxy Voting).....	21
Item 18 – Financial Information.....	22

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 Canadian and U.S. based clients of Confed.

Confed retained Sprucegrove to sub-advise their pooled 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. 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 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 Funds, elected to transfer into new Sprucegrove pooled funds.

Sprucegrove provides advisory services on a fully discretionary basis, managing international, global and U.S. equity mandates for institutional clients in Canada and the United States from our office in Toronto, Ontario, Canada. We employ a consistent investment strategy for all mandates. Our strategy employs a value approach to the management of equities. It emphasizes long-term investment and it focuses on the selection of individual securities using a bottom-up, research driven approach. Country and sector exposures are a residual of this stock-selection process.

Fund holdings must meet our standards of investment quality including a history of above average financial performance, a secure financial position, reputable management, and a growth opportunity in terms of sales, earnings, and share price. Our primary valuation criteria include normalized price earnings multiple and price to book value multiple.

Our firm is a private company that is 100% employee-owned. At December 2010, we had 28 employees. There is no principal owner (greater than 25%).

Assets Under Management

As at December 31, 2010, Sprucegrove had \$19,355 million assets under management on a discretionary basis under the following mandates:

Mandate (\$millions)	Canadian Clients	United States Clients	Total
EAFE Equity	6,024	8,504	14,528
Global Equity	3,310	229	3,539
US Equity	1,288	-	1,288
Total	10,622	8,733	19,355

Types of Accounts

Our client base is institutional clients located in the United States and Canada. This document will address only services offered to United States based clients. We provide our advisory services through both separate accounts and pooled investment funds. Sprucegrove provides investment advisory services to two pooled funds. JPMorgan Chase Bank ("JPMorgan") is the trustee and custodian of the pooled funds. For separate accounts, the client selects their own custodian.

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

Item 5 – Fees and Compensation

Sprucegrove charges advisory fees according to the following fee schedules. Advisory fees are not negotiable.

SEPARATE ACCOUNT FEES

Market Value of Clients

<u>Total Investment Accounts</u>	<u>Fees</u>
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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. Fees for assets that are not managed for a full quarter are prorated.

POOLED FUND FEES

The advisory fees for the pooled funds are paid by the pooled funds' unitholders:

Market Value of Unitholder's

<u>Total Investment Accounts</u>	<u>Fees</u>
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First	\$ 5,000,000	.90%
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%

Unitholders are billed monthly in arrears. Unitholders have the choice of paying fees by making a payment to Sprucegrove or selling pooled fund units. Clients who elect to sell units will receive a confirmation statement from the pooled fund custodian. Fees,

transaction charges and other expenses for the pooled funds are discussed in greater detail in their respective written materials.

Custodial fees charged by JPMorgan Chase are charged directly to the pooled funds. In addition, a maximum surcharge of 0.50% to cover the costs of transactions will apply to any individual or series of deposits or redemptions by a Unitholder that exceeds \$5 million dollars. This transaction charge would be waived if there are net offsetting purchases or redemptions from other Unitholders on the same valuation date. This charge is designed to protect other Unitholders in the pooled fund from absorbing the trading costs resulting from another participant's deposit or redemption.

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.

Additional Fees and Expenses

A pooled fund or separate account will also incur brokerage and other transaction costs that are payable to third parties. (See Item 12 for a discussion of brokerage practices.) Depending on the type of client and account, there may be additional third party expenses for custodial 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.

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

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 services primarily to institutional clients:

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

We have set minimum account client sizes which may be adjusted from time to time and can be waived at Sprucegrove's discretion on a case by case basis. 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.

The current minimums for a new pooled fund client is \$20 million and \$100 million for a new separate account.

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 are:

- Investing in equities of companies in global markets;
- Investing in equities believed to offer safety of capital, and a satisfactory long-term rate 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 rises to a level well in excess of intrinsic value, the price criterion.

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

- Leadership position in share of market and technology;
- Record of consistent, 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.

Investment Strategies:

Risk of Loss

All investments in securities include a risk of loss of your 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 all together.
- **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 in a timely manner.

Investors in the Pooled Funds will find more detailed risk disclosures in the documentation regarding the Pooled Funds' provided to them.

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 Associates (our employees and the principals of Fairhaven Partners, L.L.C., which provides solicitation services for Sprucegrove and administrative services to certain of Sprucegrove’s clients, as discussed in more detail in Item 14). They are distributed to each Associate at the time of hire and if there are changes. 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 Code of Ethics and Standards of Professional Conduct published by the CFA Institute (CFA)
 - report any violation or potential violation of the Code or applicable laws to the 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 Associate 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 Associates 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 Associates. 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 Associate over those of the client. The Code addresses these potential conflicts of interest by requiring Associates to obtain pre-

approval for any such transactions with the Compliance Officer. In addition, reports of personal securities transactions by Associates 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 purchase 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.

Directed Brokerage

Sprucegrove may, at the request of a 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 will 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 five portfolio managers. Each of these individuals collectively participates in and contributes to the management of all the portfolios we manage for our clients. We have assigned pairs of portfolio managers to take lead roles for our three primary mandates (EAFE, Global and U.S.). 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 (Standard & Poors 500, MSCI EAFE or MSCI World Index) on a quarterly, annual and moving three, four 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 funds, "Statements of Account" are produced by the custodian and mailed 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. 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 an agreement with Fair Haven Partners, L.L.C. ("Fair Haven") to market its investment advisory services in the United States. Fair Haven also services some of Sprucegrove's U.S. clients. Pursuant to our agreement with Fair Haven, Sprucegrove will pay Fair Haven a percentage of fees received by Sprucegrove, from clients serviced by Fair Haven. Any such payments to Fair Haven shall not increase the fees charged to the advisory client by Sprucegrove.

With respect to all solicitations by Fair Haven, Sprucegrove will fully comply with the provisions of Rule 206(4)-3 under the Investment Advisers Act of 1940, including (i) requiring Fair Haven to make appropriate written disclosure to prospective clients required by such Rule, including with respect to Fairhaven's compensation for its solicitation services and (ii) receiving from clients appropriate written acknowledgements required under such Rule prior to or at the time of entering into any advisory contract.

Item 15 – Custody

The custodian and trustee for the pooled funds is JPMorgan Chase. The custodian is the official record keeper for the pooled funds. The custodian sends each client unitholder a monthly statement of account and record of all unitholder transactions. We encourage our clients to compare these documents to their own records.

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

We maintain our own internal investment system records to facilitate our portfolio management of accounts. These internal records will differ from the custodial records. 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 pooled 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 pooled 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 votes all proxies for its pooled funds. We also vote proxies for 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. We utilize the Governance Metrics International (GMI) service to assist us in evaluating individual company corporate governance standards. Corporate governance is one of the criteria we assess in our internal company research.

Where we feel it is justified, we communicate with company management regarding a proxy issue. In instances where we do vote against the management recommendation, the company is informed of our actions. We also provide our input to companies who solicit our views on proxy, corporate governance and related compensation issues. We retain records of such engagement with companies.

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 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.