

**SKYLINE ASSET MANAGEMENT, L.P.**

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**This brochure provides information about the qualifications and business practices of Skyline Asset Management, L.P. If you have any questions about the contents of this brochure, please contact us at (312) 913-0900. 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 Skyline Asset Management, L.P. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Material Changes**

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This March 10, 2014 brochure includes the following material changes to Skyline Asset Management, L.P.'s brochure dated March 18, 2013:

The private fund, The Pendulum Portfolio, LLC, was terminated on December 31, 2013.

The investment minimum account size increased from \$2 million to \$5 million.

## Table of Contents

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MATERIAL CHANGES .....	2
TABLE OF CONTENTS .....	3
ADVISORY BUSINESS .....	4
FEES AND COMPENSATION .....	4
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	5
TYPES OF CLIENTS .....	5
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	5
DISCIPLINARY INFORMATION .....	6
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	6
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	6
BROKERAGE PRACTICES .....	7
REVIEW OF ACCOUNTS .....	11
CLIENT REFERRALS AND OTHER COMPENSATION .....	11
CUSTODY .....	11
INVESTMENT DISCRETION .....	11
VOTING CLIENT SECURITIES .....	11
FINANCIAL INFORMATION .....	12

## **Advisory Business**

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Skyline Asset Management, L.P. (“Skyline” or the “Firm”) provides investment advisory services to a broad spectrum of institutional private account clients. Skyline was formed in 1995. William Dutton, a limited partner and senior adviser of Skyline, owns more than 25% of the Firm. As of February 28, 2014, the Firm manages \$1.2 billion in assets on a discretionary basis.

The Firm provides discretionary investment management services taking into account individual client investment constraints, if any, set forth by the client in the investment advisory agreement. The Firm also provides discretionary advisory services on a sub-advisory basis to a registered investment company (“mutual fund”) consistent with the mutual fund’s charter documents and registration statement.

The Firm provides investment advice regarding small cap value equity securities.

## **Fees and Compensation**

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### *Separate Accounts*

Skyline’s basic fee schedule for separately managed account clients is generally 1% of assets under management, paid quarterly. Skyline bills clients directly. Whether the fee is paid in arrears or in advance is negotiated on a case-by-case basis. In certain instances, Skyline may charge fees different than its standard advisory schedule for extraordinary advisory services or to offset expenses unique to a particular account. Any additional fee will be specifically identified in the advisory agreement.

Under some circumstances, the account minimum, amount of the fee and the timing of payment and/or billing may be negotiable. Such circumstances may include, among others, charitable portfolios, eleemosynary portfolios, employee portfolios, the size of the portfolio, competition for particular accounts and situations in which a client (i.e., a municipality) is subject to restrictions regarding the amount of fees it may pay. Any negotiated provisions will be contained in the agreement executed by the client.

In addition to Skyline’s advisory fee, clients will pay custody fees. Clients will incur brokerage and other transaction costs. For more information on Skyline’s brokerage practices, see “Brokerage Practices” below.

### *Mutual Fund*

Skyline’s fee for providing sub-advisory services for the mutual fund, Skyline Special Equities Portfolio, a series of Manager AMG Funds, is negotiated with the investment adviser to the fund. The current fee is 0.77% of the fund’s average daily net assets, paid monthly.

### *Termination*

Skyline enters into an investment advisory contract with each client, which includes a provision regarding termination of the agreement by the client upon notice to Skyline. A client will promptly receive a refund of the portion of any fees paid in advance equal to the portion of the fee applicable to services that will not be provided as of the termination date.

## **Performance-Based Fees and Side-by-Side Management**

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Skyline does not charge clients performance-based fees.

## **Types of Clients**

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Skyline generally offers investment advice to corporate defined benefit and defined contribution plans (401(k)), endowments, foundations, public funds, and high net worth individuals, and provides investment sub-advisory services for a mutual fund, Skyline Special Equities Portfolio.

Skyline has a current investment minimum amount size of \$5 million. Skyline may increase the minimum account size for new accounts or upon 30 days' notice for existing accounts in its discretion. Skyline also reserves the right to waive or maintain accounts below the stated minimum in its sole discretion.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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Skyline's securities analysis methods include charting, fundamental, technical and cyclical analysis. Skyline currently offers small cap value equity and fund of funds investment strategies, each of which, along with the material risks involved, is described below. Investing in securities involves risk of loss that clients should be prepared to bear.

### *Small Cap Value Equity Strategy*

Skyline uses outside research services, computer screening, and internally maintained lists of potential purchase candidates as the primary sources to identify prospects. Skyline screens ideas to determine whether they meet its basic criteria: relative valuation, capitalization, financial strength and opportunities for continued growth. Then, one of Skyline's three portfolio managers, with support from the securities analyst, conducts fundamental research.

Skyline's portfolio managers analyze all company documents, review any available industry or research reports and, most importantly, direct questions to company management. The portfolio managers stress company-specific variables, instead of macro-economic factors, in this assessment. Lastly, the applicable portfolio manager reviews other companies in the same industry to determine relative valuation of the company being investigated. The applicable portfolio manager develops an internal research report, which it distributes and discusses at regular research group meetings. The group provides input, and if more information is required, the applicable portfolio manager conducts additional research. In addition, the group determines whether the stock provides needed diversification to the portfolio. The portfolio manager on a stock makes the final decision after obtaining input from the entire research group. Mike Maloney has final authority on sector weightings.

Skyline sells a stock when its P/E ratio rises to a level equal to the overall small cap stock market or its respective industry group. In the case of a stock that declines, Skyline sells only if fundamentals have changed so that the original investment thesis is no longer valid. Skyline trims a stock if it appreciates to more than a 5% weighting in the portfolio. The applicable portfolio manager gives the securities trader specific instructions regarding trades.

Skyline holds weekly meetings to review each portfolio manager's current holdings. These sessions may lead to discussions on security and sector weightings and other aspects of portfolio construction. Skyline

generally manages client portfolios the same with an average holding of 65 to 85 positions. Skyline is not an asset allocator, so Skyline seeks to be fully invested at all times and holds cash only temporarily when no new investment situations meet its buying criteria. Skyline's average cash holdings are usually less than 5% annually. Skyline is not a sector allocator and has guidelines regarding sector representation in the portfolio. Skyline's goal is to be well-diversified. Skyline's portfolios will not have economic sector weightings that are unusually large relative to either the Russell 2000 or the Russell 2000 Value Indexes, typically less than a double weighting, with the possible exception of Russell sectors with small weightings. Skyline has no minimum weighting requirements; consequently, Skyline may have no representation in a particular sector.

The material risks involved in the small cap value equity strategy include:

**Liquidity Risk** – Particular investments may be difficult to sell at the best price.

**Market Risk** – Market prices of securities held by a client may fall rapidly or unpredictably due to a variety of factors, including changing economic, political or market conditions.

**Small-Capitalization Stock Risk** – The stocks of small-capitalization companies often have greater price volatility, lower trading volume, and less liquidity than the stocks of larger, more established companies.

**Value Stock Risk** – Value stocks may perform differently from the market as a whole and may be undervalued by the market for a long period of time.

## **Disciplinary Information**

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Skyline does not have any material legal or disciplinary events to disclose.

## **Other Financial Industry Activities and Affiliations**

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Skyline does not have any other financial activities or affiliations.

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

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Personal security transactions by access persons of Skyline are subject to Skyline's Code of Ethics which includes various reporting and pre-approval requirements and certain trading restrictions in order to prevent actual or potential conflicts of interest with transactions recommended to clients. The Code of Ethics applies not only to transactions by the individual, but also to transactions for accounts in which such person has a beneficial interest. Compliance with the Code of Ethics is a condition of employment. In addition, Skyline has adopted certain policies and procedures concerning the misuse of material non-public information that are designed to prevent insider trading by employees of the Firm.

A copy of Skyline's Code of Ethics is available upon request by calling Skyline's Chief Compliance Officer at (312) 913-0900.

Skyline employees are permitted to buy, sell or hold securities that the Firm recommends to clients for their personal accounts, subject to the trading restrictions and reporting obligations contained in Skyline's Code of Ethics. Skyline employees face a conflict of interest when they buy or sell securities at or about the same time that Skyline buys or sells the same securities for client accounts, because employees could

take advantage of the information regarding the client transactions and execute their trades prior to the clients (commonly called “front running”). However, Skyline’s Code of Ethics generally restricts an employee from buying securities within 15 days before and after Skyline buys the same security for clients and generally restricts an employee from selling a security until Skyline has sold the same security for all clients.

Skyline or its employees may recommend Skyline Special Equities Portfolio to prospective clients who do not meet Skyline’s investment minimum account size.

## **Brokerage Practices**

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The precise nature of Skyline’s relationship with its clients will be according to the terms of the advisory agreements in place. Under normal circumstances, Skyline has full discretion from its clients to determine the securities to be bought or sold for client accounts, the total amount to be bought and sold, which broker or dealer will effect such transactions and the commission rates at which the transactions will be effected. Skyline, historically, has provided advice for a number of clients. The Firm may advise some clients or take actions for them that differ from recommendations or actions taken for other clients. Skyline is not obligated to recommend to any or all clients any investments that it may recommend to, or purchase or sell for, certain other clients.

### *Brokerage Selection and Best Execution*

Skyline seeks the best overall execution of transactions for client accounts consistent with the Firm’s judgment as to the business qualifications of the various broker/dealers with which Skyline may do business. In selecting broker/dealers to effect securities transactions for clients, Skyline selects broker/dealers that it believes are financially responsible, will effectively and efficiently execute, report, clear and settle the order, provide valuable research, commit capital, timely and accurately communicate with Skyline’s trading desk and operations team and will charge commission rates which, when combined with these services, will produce the most favorable total cost or proceeds for each transaction under the circumstances. “Best execution” means the best overall qualitative execution, not necessarily the lowest possible commission cost. Skyline obtains information as to the general level of commission rates being charged by the brokerage community from time to time and periodically evaluates the overall reasonableness of brokerage commissions paid on client transactions by reference to this data.

Skyline periodically reviews the past performance of the exchange members, brokers or dealers with whom it places orders to execute portfolio transactions in light of the factors discussed above. Skyline may cease to do business with certain exchange members, brokers or dealers whose performance may not have been competitive or may demand that such persons improve their performance before receiving any further orders.

### *Trade Allocation and Aggregation*

Skyline has adopted a policy of pro rata allocation per client account based upon order size as determined by the portfolio manager at the time of order entry. Skyline believes that in most instances a pro rata allocation will ensure fairness. The policy recognizes that no rigid formula will always lead to a fair and reasonable result, and that a degree of flexibility to adjust to specific circumstances is necessary. Therefore, under certain circumstances, Skyline permits allocation on a basis other than strictly pro rata or based on order size if it believes that such allocation is fair and reasonable. Skyline seeks to be fair and reasonable to all clients based upon client investment objectives and policies and seeks to avoid the appearance of favoritism or discrimination among clients.

Proprietary and affiliated accounts may participate in transactions in the same securities and at the same or approximately the same time as accounts of unaffiliated clients. Skyline does not favor proprietary or affiliated accounts over the account of any unaffiliated clients. Due to the specific requirements of each client account, securities transactions entered into for proprietary or affiliated accounts will not necessarily be consistent with transactions entered into for unaffiliated client accounts.

When Skyline deems it appropriate, the Firm may aggregate into a single transaction requests for execution of purchases or sales of a particular security for the account of several clients (commonly known as “bunching”), in order to seek lower commissions or a more advantageous net price. The benefit, if any, obtained as a result of bunching is generally allocated pro rata among the accounts of the clients who participated in the bunched transaction. When trades are bunched to obtain best price and execution, the bunched trade may include orders for the mutual fund and other clients of Skyline.

#### *Allocation of Limited Offerings*

The Firm allocates investment opportunities, including Initial Public Offerings and other securities with limited availability (collectively, “IPOs”), among client accounts in a fair and equitable manner. The Firm does not favor or disfavor any account or type of account or client (including any proprietary or affiliated account) over another over a period of time. Taking into consideration factors such as client account objectives and preference, investment restrictions, account sizes, cash availability, and current specific needs, the portfolio managers are responsible for determining the allocation of investment opportunities among client accounts in a manner that seeks to treat client accounts in a fair and equitable manner so that no account or type of account is favored over another, over time.

#### *Cross Trades*

Under circumstances where Skyline determines that it is in the best interest of each participating client, and where the client has determined (or Skyline exercising investment discretion on behalf of that client has determined) that it is appropriate to sell certain securities and another client has determined (or Skyline exercising investment discretion on behalf of that client has determined) that it is appropriate to buy such securities, Skyline may transfer securities that have readily available market prices directly between each client’s custodian. In these instances, the transaction is executed at the closing price of the security on that day. However, in these circumstances, the potential for a conflict of interest exists for Skyline since Skyline is seeking to act in the best interest of each client.

#### *Research and Other Soft Dollar Benefits*

Skyline may direct brokerage commissions on client account portfolio transactions to certain broker/dealers consistent with Section 28(e) of the Securities Exchange Act of 1934, in recognition of brokerage and research services provided by those broker-dealers and/or other third-party providers. The research provided can be either proprietary (created and provided by the broker/dealer, including tangible research products as well as, for example, access to company management or broker/dealer generated research reports) or third-party (created by the third-party, but provided by the broker/dealers). This may cause clients to pay a broker/dealer a commission rate higher than that which the broker/dealer would have charged for execution only. This is known as paying up for soft dollar benefits. These products and services may include advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities, and analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts. Skyline believes that brokerage commissions are client assets and should be utilized in accordance with fiduciary principles, for the benefit of clients.



In the allocation of brokerage business, Skyline may have an incentive to give preference to those brokers that provide research products and services, either directly or indirectly. However, Skyline will only do so to the extent the Firm believes that the selection of a particular broker is consistent with Skyline's duty to seek best execution. To the extent that Skyline is able to obtain products and services through the use of clients' commission dollars, it reduces the need to produce the same research internally or through outside providers for hard dollars and thus provides an economic benefit to Skyline. On an ongoing basis, Skyline monitors the research services received to ensure that the services received are reasonable in relation to the brokerage allocated.

If Skyline receives a product or service that both aids it in carrying out its investment decision making responsibilities (i.e., a "research use") and provides non-research related uses, Skyline will make a good faith determination as to the allocation of the cost of these "mixed-use items" between the research and non-research uses and will only use soft dollars to pay for the portion of the cost related to its research use.

The research products/services provided by brokers through its soft dollar arrangements benefit Skyline's investment process for client accounts and are used in formulating investment advice for any and all clients of the Firm including accounts other than those that paid commissions to the brokers on a particular transaction. As a result, not all research generated by a client's trade will benefit that particular client's account. In some instances, the other accounts benefited will include accounts that clients have directed a portion of their brokerage commissions to go to particular brokers other than those providing the research products/services. Skyline does not attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives benefits clients and assists Skyline in fulfilling its overall duty to its clients.

#### *Directed Brokerage*

In some cases, clients may direct Skyline to use a specified broker-dealer for portfolio transactions in their account. In these cases, Skyline is not obligated to, and will generally not solicit competitive bids for each transaction or seek the lowest commission rates for the client as the commission rates have typically been pre-negotiated between the client and the broker and Skyline is unable to supersede the terms of that agreement. In some instances, pre-negotiated rates have not been made by the client. In those cases, the client will generally be charged the broker's applicable commission rate. As such, the client may pay higher commission costs, higher prices and transaction costs than it otherwise would have had it not directed Skyline to trade through a specific broker, since Skyline has not negotiated the rate and may not be able to obtain volume discounts. In addition, the client may be unable to obtain the most favorable price on transactions executed by Skyline as a result of Skyline's inability to aggregate/bunch the trades from the directed brokerage account with other client trades.

Furthermore, the client may not be able to participate in the allocation of a security of limited availability (such as an IPO). As a result of the special instruction, Skyline may not execute client securities transactions with brokers that have been directed by clients until non-directed brokerage orders are completed. Due to these circumstances, there may be a disparity in commission rates charged to a client who directs Skyline to use a particular broker from other client accounts and these clients may experience investment and other differences. Accordingly, clients directing brokerage may generate returns in their accounts that are different from those clients with accounts that do not direct brokerage. Clients who direct brokerage should understand that similar brokerage services may be obtained from other broker-dealers at lower costs and possibly with more favorable execution.

Where Skyline does not have discretion to select a broker or dealer:

- Skyline will not negotiate commission rates. Rather, the commission rates will be as negotiated by the client with the broker and will not change as a result of Skyline serving as investment adviser.
- There may be a disparity in commission rates charged to the client who directs Skyline to use a particular broker or dealer. Clients should realize that similar brokerage services may be obtained from other brokers or dealers at lower costs.
- Skyline will not be responsible for obtaining competitive bids on directed trades done on a net basis.
- Skyline may be unable to obtain a more favorable price based on transaction volume on transactions that cannot be aggregated with transactions of its other advisory clients.
- Skyline may enter certain orders after other clients' orders for the same security, with the result that market movements may work against the client.
- A client may not be able to participate in an allocation of shares of a new issue for various reasons, including if those new issue shares are provided by another broker or dealer.

#### *Commission Recapture*

Certain of Skyline's clients may request that their brokerage business be allocated to certain broker/dealers pursuant to commission recapture or other arrangements between the client and the designated broker/dealer. This direction may be conditioned upon the designated broker/dealer regularly trading in the types of securities contained in the client's account. Typically in these cases, Skyline follows its general practice of bunching trades and will attempt to direct trades to a broker/dealer with instructions that the broker/dealer execute the transaction and "step-out" a portion of the commission in favor of the broker/dealer designated by the client. There can be no assurance that Skyline will be able to step-out the trades or if it steps-out, it will be able to obtain best execution. Accordingly, clients directing commissions to designated broker/dealers should consider the limitations associated with this direction.

#### *Step-Outs (Commission Sharing)*

Skyline may use step-out trades when it determines it to be advisable, including in situations where Skyline believes it may facilitate better execution for certain client trades. Step-out trades are placed at one broker-dealer and then "given up/stepped out" by that broker-dealer to another broker-dealer. The executing broker-dealer may execute the step-out as a net trade and may add a per share charge to the overall cost of the trade. Unless directed otherwise by the client, Skyline may step-out trades for any client account, including directed brokerage accounts.

Step-out trades may benefit the client by finding a natural buyer or seller of a particular security so that Skyline can trade a larger block of shares more efficiently than it otherwise could.

Step-out trades may also be used by Skyline in order to generate soft dollar credits, so long as the Firm has determined that step-out trading is consistent with the principles of best execution and applicable regulations.

## **Review of Accounts**

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Skyline's portfolio managers, trading, operations and compliance staff review client accounts on a quarterly basis for compliance with client investment guidelines.

Skyline provides written monthly reports to clients, which include information on holdings, account value, account characteristics and performance.

## **Client Referrals and Other Compensation**

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This item is not applicable to Skyline since Skyline does not compensate third parties for client referrals.

## **Custody**

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This item is not applicable to Skyline since Skyline is not deemed to have custody of separate account client assets.

## **Investment Discretion**

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Skyline accepts discretionary authority to manage securities accounts on behalf of clients pursuant to an investment advisory agreement. Clients may place limitations on this authority, such as imposing socially responsible investing guidelines or excluding or limiting the amount invested in a particular industry or company.

## **Voting Client Securities**

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Skyline has the authority to vote proxies for client securities. The following is a summary of Skyline's proxy voting policy and procedures. Clients wishing to receive a copy of the entire policy and procedures or information on how Skyline voted securities in their account should contact Skyline's Chief Compliance Officer at (312) 913-0900.

When making proxy voting decisions, Skyline generally adheres to proxy voting guidelines that set forth Skyline's proxy voting positions on issues. Skyline believes the guidelines, if followed, generally will result in the casting of votes in the economic best interests of its clients. The guidelines are not exhaustive and do not include all potential voting issues. Because proxy issues and the circumstances of individual companies are so varied, there may be instances when Skyline votes contrary to its general guidelines.

Skyline adheres to an ERISA standard for voting the proxies. ERISA sets forth the tenets under which corporate pension fund assets must be managed and invested. Although ERISA technically governs only the assets of corporate pension plans, Skyline believes that, in the case of proxy voting, the duties of loyalty and prudence as defined within ERISA provide excellent guidance.

All votes are reviewed on a case-by-case basis and no issue is considered routine. Each issue will be considered in the context of the company under review. When voting on common, management-sponsored initiatives, Skyline generally, although not always, votes in support of management. When voting items that have a potential positive financial impact, Skyline generally, although not always, votes

in support of management. When voting items that have a potential negative financial impact, Skyline generally, although not always, votes to oppose management.

To facilitate its proxy voting process, Skyline has retained a proxy administration and research service (the “proxy service”) to assist it with in-depth proxy research, vote execution, and the recordkeeping necessary for tracking proxy voting. The proxy service provides Skyline with research and voting recommendations consistent with Skyline’s proxy voting policy. Skyline assesses the proxy service’s recommendations before voting. For all clients, in every instance where a proxy vote presents a material conflict of interest between a client and Skyline, Skyline will obtain the client’s consent prior to voting.

Skyline will generally decline to vote a proxy if voting the proxy would cause a restriction to be placed on Skyline’s ability to trade securities held in client accounts in “share blocking” countries. Accordingly, Skyline may abstain from votes in a share blocking country in favor of preserving its ability to trade any particular security at any time.

## **Financial Information**

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Skyline does not believe there is any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.