

# GlobeFlex Capital, LP



## Part 2A of Form ADV *The Brochure*

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This brochure provides information about the qualifications and business practices of GlobeFlex Capital, LP (“GlobeFlex,” the “Firm,” “us,” or “we”). If you have any questions about the contents of this brochure, please contact us at 858-658-9060. 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 GlobeFlex is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2: Material Changes

GlobeFlex’s most recent update to Part 2 of Form ADV was made in March 2019. The Firm’s business activities have not changed materially since the time of that update.

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## Item 4: Advisory Business

GlobeFlex was founded in January 1994 and is majority owned by Marina Loretta Marrelli and Robert James Anslow. As of December 31, 2019, the Firm managed \$3,752,979,540 on a discretionary basis on behalf of approximately 31 clients.

The Firm engages in a general investment advisory business emphasizing U.S. and International equity management using a systematic approach to pursue certain strategies listed below (the “Strategies”) with the general objective of maximizing total returns subject to each client’s risk profile and investment guidelines. In addition to those Strategies we also create tailored separate account portfolios to meet specific clients’ needs. These custom strategies will not necessarily be marketed to other prospective clients. Clients may impose reasonable restrictions on the management of their accounts. While we primarily manage separate accounts for institutional clients, we have sponsored and manage certain private investment funds, each formed to invest principally in securities using one of the Strategies (the “Private Funds”).

GlobeFlex’s headquarters are in San Diego, California. We have an office in Boston, MA through which we perform certain research-related activities. We have a wholly-owned subsidiary in India that provides us with research assistance, data compilation, and technological services.

## Item 5: Fees and Compensation

GlobeFlex is compensated for our advisory services through the collection of management fees from separate account clients and the Private Funds.

## Separate Accounts

Separate account management fees are invoiced and payable quarterly, in arrears. Fee calculations are typically based on the arithmetic average of the value of account assets as of the end of each month in a quarter, though some separate account advisory agreements stipulate a different computation technique.

GlobeFlex does not deduct fees from separate account client assets. It is also not our current practice to collect management fees in advance, but if we were to, upon termination of the related advisory agreement we would refund all fees for which services had not been rendered. Most advisory agreements currently in place allow clients to terminate us on 30 days' written notice.

GlobeFlex's separate account fees generally vary with the type and size of portfolio managed. For each Strategy, the basic annual fee per annum, calculated as a percentage of assets under management, is as follows:

ACWI ex-U.S. Equity:

- 0.75% for the first \$50 million;
- 0.70% for the next \$50 million; and
- 0.65% for assets in excess of \$100 million.

Canadian Small Cap Equity:

- 0.80% for the first \$25 million;
- 0.75% for the next \$25 million; and
- 0.70% for assets in excess of \$50 million.

Emerging Markets Small Cap Equity:

- 1.00% for the first \$50 million
- 0.95% for the next \$50 million
- 0.90% for assets in excess of \$100 million.

Frontier All Cap Equity:

- 1.50% for all assets under management.

Global Dynamic Equity:

- 1.00% for all assets under management.

International All Cap Equity:

- 0.75% for the first \$50 million;
- 0.70% for the next \$50 million; and
- 0.65% for assets in excess of \$100 million.

International Micro Cap Equity:

- 0.90% for all assets under management.

World ex-U.S. Small Cap Equity:

- 0.80% for the first \$25 million;
- 0.75% for the next \$25 million; and
- 0.70% for assets in excess of \$50 million.

U.S. Small Cap Equity and U.S. Small Cap Growth Equity:

- 0.85% for the first \$25 million;
- 0.80% for the next \$25 million; and
- 0.75% for assets in excess of \$50 million.

U.S. Mid Cap Equity:

0.70% for the first \$25 million;  
0.65% for the next \$25 million; and  
0.60% for assets in excess of \$50 million.

U.S. Small/Mid Cap Equity and U.S. Small/Mid Cap Growth Equity:

0.80% for the first \$25 million;  
0.75% for the next \$25 million; and  
0.70% for assets in excess of \$50 million.

U.S. Micro Cap Equity:

0.90% for all assets under management.

The foregoing describes GlobeFlex's *basic* fee schedule; however, fee schedules may be negotiable and arrangements with any particular client may vary from the foregoing. For example, in some cases, for any particular period the percentage to be applied to the amount of assets under management may vary depending on the performance of the account during that period. In some cases our fees may be greater or lower than fees charged by other investment advisers for similar services.

In addition to management fees, client accounts incur brokerage and other transaction costs (see *Brokerage Practices* below) and certain accounts pay GlobeFlex a research fee in lieu of having commissions in their accounts generate soft dollar credits.

### **Private Funds**

The management fee schedule for each Private Fund is set forth in the respective organizational documents and offering materials, which are provided to investors. While fees are paid by the Private Fund, they are typically calculated separately for, and allocated to (borne by) each investor, in some cases depending on the amount the investor has invested in the Private Fund. Fee schedules may be negotiable in certain limited circumstances and arrangements with any particular Private Fund investor may vary from the schedule stated in the organizational documents. The Private Funds currently do not pay GlobeFlex any performance-based fees.

Private Fund Management Fees are generally calculated and accrued monthly in arrears, based on investors' account balances as of the end of the month. Private Funds generally pay accrued amounts quarterly.

The Private Funds also bear certain costs of their operations, including costs of researching, identifying, and/or acquiring investments; certain bookkeeping, accounting, tax preparation, reporting, and audit fees and expenses; legal fees (including fees paid to GlobeFlex's counsel for services that benefit the relevant Private Fund); filing fees; custodial fees; transfer and other taxes; fees and expenses of the Private Fund's "partnership representative;" and fees paid to third-party administrators. These expenses are more fully described in the Private Funds' organizational documents (provided to investors) and their offering materials.

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

As noted above, in certain limited circumstances, generally at the client's request, GlobeFlex's management fee rate for an account varies based on the performance of the account during a specified period. This could create an incentive for GlobeFlex to favor those accounts over accounts whose fees do not vary directly with performance. GlobeFlex follows procedures intended to ensure that those accounts are not favored in portfolio management or trading. Except to the extent account-specific investment restrictions or guidelines require otherwise, GlobeFlex invests all accounts within the same strategy in the same securities and, to the extent practicable, in the same proportions. Orders for all client accounts buying or selling a security at the

same time are generally aggregated and each participating account generally receives the average price and pays a proportionate share of transaction expenses. Please see *Brokerage Practices* below for further information.

## **Item 7: Types of Clients**

We serve primarily institutions (such as pension plans, foundations, corporations, and family office entities). We also manage the Private Funds and act as sub-adviser to certain outside pooled investment vehicles, including registered investment companies. We manage all client accounts on a discretionary basis.

We focus on accounts we consider large enough to permit efficient management. To that end we generally impose a \$10 million minimum value of assets for starting a small- or medium- capitalization separate account and \$25 million for starting a large- or all-capitalization separate account. We may waive these dollar value requirements in our discretion; for example, if the client appears to have significant potential to increase the assets under our management to the minimum in a short period of time. The minimum investments in the Private Funds range from \$500,000 to \$10,000,000 (subject to reduction in GlobeFlex's discretion).

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

### **Investment approach**

GlobeFlex manages long-only equity strategies. In the pursuit of capital appreciation, we buy and sell the stocks of companies that are organized in or conduct a significant portion of their business in a particular market or markets, such as the U.S., non-U.S. developed markets, emerging markets, or so-called "frontier" markets. We generally buy and sell securities on the principal stock exchange or over-the-counter market of the country in which the principal offices of the security's issuer are located. In general, our Strategies are defined by the country or countries in which they invest, the capitalization group emphasized, if any, and/or any emphasis on growth companies. Our current Strategies are listed under Item 5.

The universe of investment opportunities for a given Strategy is typically based on an independent equity index, such as those provided by MSCI, S&P or Russell. Within a universe, each stock's relative attractiveness is evaluated based on a comprehensive analysis of the issuing company's fundamentals. Long term value and growth potential are sought, as well as the potential for shorter-term success.

We have developed a systematic stock evaluation method, implemented through a proprietary technology platform. These tools, including a proprietary model and certain third-party models, analyze stocks and assist in their selection for investment or sale based on numerous criteria, including rate and stability of growth in earnings per share and cashflow, relative company valuations, relative price strength, economic profitability, and earnings per share estimates. For non-U.S. securities, we have developed techniques for adjusting earnings and other financial criteria for differences in accounting practices among different countries.

Portfolios are typically well-diversified across sectors and securities, and in the case of multi-country Strategies, countries. GlobeFlex does not employ margin borrowing or other leveraging techniques, nor do we sell securities short or engage in hedging activities. GlobeFlex's investment process emphasizes active management and, while not a primary goal or technique, there may be periods during which a significant portion of an account will turn over. Rapid turnover can be expected to result in considerable transaction expenses, all of which will be borne by an account.

### **Potential Risks**

All investing and trading activities risk the loss of capital and we cannot assure clients that they will not suffer losses. Each of GlobeFlex's Strategies involves investing only in equity securities, and some of them focus

on particular, limited markets. Accordingly, management of particular assets by GlobeFlex should not be considered a complete investment program. The following summarizes, in a very general way, some, but not all, of the risks that may be involved in GlobeFlex's investment services. The Private Funds' respective offering materials provide additional discussion of risks applicable to investments in those vehicles.

### **Risks of Equity Investing Generally**

The prices of equity securities fluctuate significantly, sometimes over short periods. As a result client accounts can fluctuate significantly in value. Developments and disruptions in financial and securities markets generally can significantly affect the prices of securities in which client accounts invest, our ability to assess the prospects of issuers of those securities, and our ability to adapt exposures accordingly. Developments and disruptions may be global in nature or may occur in particular markets, but even developments outside of markets in which an account is invested may affect securities prices within those markets. Among the economic and financial attributes and aspects in which rapid developments have in the past had significant effects on the value and performance of equity portfolios are interest rates, the availability of credit, liquidity of particular types of investments, political changes or unrest, increases in unemployment, recession, inflation, or other changes in economic conditions, terrorist attacks or war, natural disasters such as wildfire, hurricanes/typhoons, flooding, and earthquakes, nuclear or large-scale industrial or chemical incidents, and epidemics and pandemics. .

In the winter of 2020, an outbreak of Coronavirus (or COVID-19) created sudden and enormous economic and social uncertainty throughout the world, causing among other things dramatic declines in securities prices over a very short period and significant reduction in securities market liquidity. As of March 2020, the disruptions from that pandemic continue to increase and change rapidly and the mid- and long-term effects are impossible to predict. Disruptions to commercial activity arising from quarantines and travel restrictions, and/or failures to contain the outbreak could, among other things, imperil the fundamental viability of many existing businesses across the world, have enduring and materially adverse impacts on global, national, and local economies, and create long-lasting instability in financial and securities markets. Any of those effects may materially and adversely affect clients' investments, in both the near and the long term.

### **Risks of Non-U.S. Equity Investing**

Most of our Strategies involve investing in non-U.S. equities, and some are based on investing only outside the U.S. International equity investing presents risks beyond those encountered in the U.S. market. Among other things:

- There is less information publicly available about companies in many non-U.S. markets than there is about U.S. companies. Some foreign countries lack uniform accounting, auditing and financial reporting standards, practices and requirements, making it difficult to analyze and compare the merits of investing in companies organized there.
- Many foreign stock markets are not as sophisticated or efficient as the U.S. market and prices may be significantly more volatile than in the U.S. In many countries and regions, there is less government supervision and regulation of exchanges, brokers, and listed companies than in the U.S., and liquidity, execution quality, and reliability may be significantly less.
- A change in value of any currency against the U.S. dollar causes a corresponding change in the U.S. dollar value of an account's securities that are denominated or traded in that currency. Certain countries maintain their currencies at artificial levels relative to the U.S. dollar. This type of system can lead to sudden and large adjustments in the currency, which can result in losses to foreign investors. Certain countries restrict conversion of their currency into foreign currencies, including the dollar, and for some currencies, there is no significant foreign exchange market.

- Certain countries impose restrictions and controls regarding investment by foreigners. Among other things, they may require prior governmental approvals, impose limits on the amount or types of securities that may be held by foreigners or impose limits on the types of companies in which foreigners may invest. In addition, certain countries impose restrictions and controls on repatriation of investment income and capital.
- The costs of executing transactions and of maintaining custody of non-U.S. securities generally are higher than similar costs associated with U.S. securities. Commissions for trades on non-U.S. stock exchanges are generally higher than in U.S. markets. Fees, levies and taxes are sometimes assessed on trades in non-U.S. markets. Settlement practices for transactions in non-U.S. markets may involve delays beyond periods customary other markets. In addition, there could be more “failed settlements,” which can result in losses.

### **Risks of Frontier Markets Equity Investing**

Some of our Strategies involve investing in so-called “frontier” markets, and one Strategy focuses exclusively on those markets. “Frontier market” countries are generally countries whose economies and economic institutions and structures are even less developed than so-called “emerging market” countries. Countries currently considered to be frontier markets include Albania, Ecuador, Kenya, Lithuania, Nigeria, Pakistan and Tunisia. The risks that generally arise from investing outside the U.S. are particularly pronounced in frontier markets and can have greater impact on investments in those markets than investing in developed non-U.S. markets, or even in emerging markets. Frontier market investing also presents additional risks. Among other things:

- Markets in frontier economies are not as sophisticated or efficient as those in developed countries or even in many emerging countries, and may be significantly more volatile. Many do not have their own stock exchanges. There is generally less government supervision and regulation of exchanges, brokers, and listed companies than in developed or emerging markets. Trading volumes in frontier markets are often lower than in developed markets and even emerging markets. This can result in reduced liquidity and potentially rapid and erratic price fluctuations.
- Company actions in frontier markets often involve a fair amount of ambiguity. In particular, there may be long delays between the announcement of a dividend and the receipt of payment.
- Frontier market economies are generally less stable than developed and even emerging countries’ economies due to, among other things, volatile internal political environments, less stable monetary systems and/or external political risks. Some local governments participate in their economies through ownership or regulation in ways that can have a significant effect on securities prices. The economies of some frontier countries depend heavily on international trade and can be adversely affected by the enactment of trade barriers or changes in the economic conditions of their trading partners. In some of these countries political or diplomatic developments could lead to rules, initiatives, or programs that would adversely affect investments by U.S. persons, such as confiscatory taxation or expropriation.
- Frontier market countries may be more inclined to impose currency restrictions than developed or emerging market countries.
- GlobeFlex trades equities in certain frontier markets through only one or a small number of brokerage firms. This concentration of trading intermediaries can affect the prices at which we transact and the volatility of the markets. GlobeFlex’s trading activities could be affected by a failure of a brokerage firm that is dominant in a particular market.
- Direct participation in equity markets of some frontier countries is limited by factors such as local regulation and access to financial intermediaries. In these situations, GlobeFlex gains exposure to equity securities indirectly through depositary receipts representing, or derivative contracts or

instruments based on, underlying securities, the performance of which is linked to the performance of the underlying listed security. Such derivatives subject accounts to counterparty risk and may be less liquid than direct ownership would be (if it were available). Derivatives may increase or decrease overall account volatility.

### **Micro-, Small-, and Medium-Capitalization Companies**

For some Strategies, stocks of medium-, small-, and micro-capitalization securities make up significant portions of clients' portfolios. Investing in these companies presents particular risks. The companies' operations and financial performance may be more subject to adverse developments than more seasoned companies. And their stock prices tend to be more volatile than for large-capitalization companies. There may be instances where a security's trading volume drops to levels that are not meaningful, or even where trading is halted.

### **Dependence on Personnel**

As with many independent investment advisers, GlobeFlex's ability to meet clients' investment objectives depends on the ability of our portfolio management team to develop and implement the investment process. Loss of the services of any key members of our team for any significant period could adversely affect our performance. As with all investment managers, a significant social disruption, such as quarantine in response to a pandemic such as COVID-19, could impair our team's ability to function, potentially reducing our ability to implement our investment processes or react to market developments.

### **Reliance on Quantitative Models, Data, and Technology**

While we also employ traditional, more qualitative elements of stock analysis, GlobeFlex's investment decision-making is largely driven by our use of models to predict future performance of individual securities and take investment action based on those predictions. If major global events, such as the 2020 Coronavirus pandemic, were to cause significant changes in financial structures or economic behavior, our models may cease to predict performance in the ways they have in the past.

Running and using these models rely heavily on proprietary computer code and on computer processing and communications resources. The models, systems, and processes are complex and depend fundamentally not only on effective conceptual design and on the functionality of our technology, but also on the integrity and reliability of third-party data inputs and systems. An account's investment performance could be materially and adversely affected if any aspect of GlobeFlex's decision-making and implementation processes were to fail to function as designed, if data on which we rely were to be "contaminated," corrupted, or interrupted, or if third-party communications or transaction processing systems were to fail to operate effectively and accurately.

### **Cybersecurity Risks**

Like all participants in global markets, GlobeFlex and its clients are susceptible to operational, information security and related risks arising from use of electronic communications technology such as the internet. Cyber incidents can result from deliberate attacks, including unauthorized persons' gaining access to digital systems (e.g., through "hacking" or malicious software coding) in order to misappropriate assets or sensitive information, corrupt data, or cause operational disruption. They can occur without unauthorized access, such as in denial-of-service attacks on networks or websites. And they can result from system malfunctions or human errors. Cyber incidents involving our and/or our clients' service providers (including Transacting Parties (defined below)), exchanges and other trading facilities and financial market operators, custodians, banks, data providers, and governmental and other regulatory authorities) can cause disruptions and affect business operations, potentially causing losses and violations of privacy and other laws. And cyber incidents affecting issuers of securities held in client accounts can affect the value of those securities. While GlobeFlex



employs cybersecurity and business continuity measures and assesses the efficacy of those measures frequently in light of developments, no such measures are foolproof, and the potential for losses arising out of cyber attacks or incidents exists.

## **Item 9: Disciplinary Information**

GlobeFlex and our employees have not historically been involved in any legal or disciplinary events that would be material to a client's evaluation of the Firm or our personnel.

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

GlobeFlex is the general partner of two of the Private Funds: GlobeFlex Emerging Markets Small Cap, L.P., and GlobeFlex Frontier All Cap, L.P. It is the investment manager for the third of those funds, GlobeFlex International All Cap Commingled Trust, and performs certain administrative functions for that fund. The Private Funds are offered privately and are available only to sophisticated and experienced investors who are able to bear the risk of loss of their entire investment. Potential investors do not engage GlobeFlex to advise them as to the appropriateness of investing in the Private Funds, and we do not receive any compensation for selling interests in Private Funds. However, because of the Firm's relationships to these funds, should a person or entity that is a separate account client also invest in a Private Fund, GlobeFlex could be considered to have recommended that investment.

GlobeFlex's wholly-owned subsidiary, GlobeFlex Research India Private Limited, provides GlobeFlex with research assistance, data compilation, and technological services.

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

GlobeFlex and our associated persons attempt to avoid conflicts of interest that might arise as a result of the management of clients' accounts. We have a Code of Ethics (the "Code") that contains policies and procedures intended to, among other things, prevent associated persons and certain of their family or household members from benefiting from any price movement that may be caused by transactions in client accounts or our recommendations regarding securities and otherwise to minimize potential conflicts of interest. Among other things, our Code requires employees to obtain clearance from Compliance to buy or sell certain securities, including any individual equity, any security in a limited offering or private placement, any security in an initial public offering (including debt securities), and any shares of a mutual fund for which GlobeFlex serves as sub-adviser. The Code also prohibits certain transactions when the employee knows that the Firm is contemplating effecting similar transactions in client accounts. GlobeFlex does not prohibit employees from buying or selling securities that are bought or sold for clients, but the preclearance process is intended to prevent employees from benefiting from GlobeFlex clients' trading activities. A copy of the Code is available to clients and potential clients upon request.

GlobeFlex manages accounts owned by two principals of the Firm (the "seed" accounts), in certain strategies. These accounts have investment objectives that somewhat overlap with the objectives of accounts we manage for clients and therefore periodically will buy and sell some of the same securities that client accounts buy and sell. We may in the future be engaged to manage client accounts with the same objectives as these seed accounts. While the seed accounts remain active, they will buy, sell and hold substantially the same securities as those client accounts. Please see Item 12 below for a discussion of GlobeFlex's trade allocation procedures.

GlobeFlex, our principals, and a small number of employees own partnership interests in certain of the Private Funds. Those funds invest in some of the same securities as various other client accounts. When effecting transactions in those securities at the same time as other clients, the Private Funds' transactions are generally aggregated with other client transactions on an average price basis.

From time to time, we make donations to charitable organizations at the request of a client or of an investor in one of the Private Funds, which may be the client or investor itself, or in furtherance of a particular charitable cause. Our willingness to make those donations is unrelated to, and has no effect on, our investment management process or decisions, including in relation to trade allocation and aggregation.

## **Item 12: Brokerage Practices**

### **Discretion and Selection**

GlobeFlex has discretion in deciding what brokers, dealers, banks and other financial intermediaries and counterparties with or through which to execute or enter into transactions for client accounts (collectively, “Transacting Parties”) and in negotiating Transaction Parties’ compensation arrangements. GlobeFlex generally chooses Transacting Parties on a transaction-by-transaction basis. In addition to paying commissions on transactions effected on an agency basis, GlobeFlex may buy or sell securities directly from or to Transacting Parties at prices that include markups or markdowns and may enter into derivatives transactions with Transacting Parties on terms that provide other compensation to those Transacting Parties. We also use a variety of execution venues, such as multilateral trading facilities, alternative trading facilities, systematic internalisers, crossing networks and dark pools. The following describes some noteworthy aspects of GlobeFlex’s use of and relationships with Transacting Parties.

### **Allocation and Aggregation**

As noted above, GlobeFlex generally causes accounts within a particular Strategy to buy or sell the same stocks in the same proportions at the same time. Factors such as actual or anticipated cash flows into or out of an account and/or client specific limitations or restrictions may cause exceptions to this general practice.

GlobeFlex generally aggregates the orders of accounts that are buying or selling the same security at the same time and allocates the securities or proceeds arising out of those transactions on an average price basis among the various participants. GlobeFlex believes combining orders in this way is, over time, equitable and advantageous to all participants. However, the average price could be less advantageous to any particular account than if that account had been the only account effecting the transaction or had completed its transaction before the other participants.

At times, when GlobeFlex is unable to buy or sell the desired amounts for all similarly-situated accounts and it is impracticable or impossible to allocate the amounts actually bought or sold proportionately among all those accounts, we must allocate the transaction results among fewer than all those accounts. Separately, client-specific factors, including brokerage direction (described below), may cause some transactions for some accounts (including GlobeFlex “seed” accounts) to be executed separately from aggregated transactions in which most accounts participate. In these types of circumstances, GlobeFlex allocates trading opportunities (including participation in partial fills and determining the order in which disaggregated transaction orders are placed relative to aggregated orders) on bases it considers equitable to all accounts over time, including, in appropriate cases, through rotational selection.

### **Best Execution**

In choosing Transacting Parties, GlobeFlex generally seeks “best execution” of securities transactions. What constitutes “best execution” and determining how to achieve it are inherently uncertain, involving qualitative as well as quantitative assessment. In evaluating whether a Transacting Party will provide best execution, GlobeFlex considers (in addition to commission rates) a range of factors, including, among others: historical net prices on other transactions; the execution, clearance and settlement and error correction capabilities of the Transacting Party generally and in connection with securities of the type and in the amounts to be bought or sold; the Transacting Party’s willingness to commit capital; the Transacting Party’s reliability and financial

stability; the size of the transaction and its complexity; the market for the security; and, as discussed more fully below, the nature, quantity and quality of research and other services and products provided by the Transacting Party. GlobeFlex is not required to select the Transacting Party that charges the lowest transaction cost, even if that Transacting Party could provide execution quality comparable to other Transacting Parties, and GlobeFlex expects accounts at times to pay more than the lowest transaction cost available in order to obtain services and products other than pure execution and to achieve quality execution. Our trading personnel continuously monitor transaction results using internal analysis to evaluate execution quality provided by Transacting Parties. We also evaluate third-party analytics to assess the execution quality of, and to evaluate the reasonableness of the compensation paid to, Transacting Parties in light of the factors described above.

## **Soft Dollars**

GlobeFlex may select Transacting Parties in recognition of the value of various services or products, beyond transaction execution, that they provide. Selecting a Transacting Party in recognition of the provision of services or products other than transaction execution is sometimes known as paying for those services or products with “soft dollars” or as “bundling” the costs of those services or products together with pure execution costs. As discussed below, this can involve conflicts of interest.

*“Research and Brokerage.”* Section 28(e) of the Securities Exchange Act of 1934 protects investment managers (such as GlobeFlex) from claims that their use of soft dollars breaches their fiduciary duty to advisory clients – even if the brokerage commissions paid are higher than the lowest available – *if* the investment manager uses soft dollars only to acquire eligible “research” or “brokerage” products or services, if it determines that the commissions involved are reasonable in light of the brokerage and research services and products provided, and if certain other conditions are met. Services or products generally qualify as “research” under Section 28(e) if they constitute advice, analyses, or reports that express reasoning or knowledge as to the value of investing in or trading securities or as to issuers, industries, economic factors and trends, portfolio strategy, or performance, but only to the extent GlobeFlex uses them for lawful and appropriate assistance to GlobeFlex in making investment decisions for our clients. “Brokerage” services and products are those used to effect securities transactions for GlobeFlex’s clients or for functions that are incidental to effecting those transactions (such as clearance, settlement, or short-term custody related to effecting, clearing, or settling transactions) or regulatorily required in connection with transactions.

During our last fiscal year, the types of research GlobeFlex acquired included: customized software and services for stock analysis and investment-decision making; information about particular companies and industries (e.g., economic margin data and earnings estimates); computerized news, pricing, and statistical services; financial data feeds and databases; portfolio evaluation services; and economic surveys and analyses. Brokerage services and products (beyond typical execution services) included: computer services and software that permit GlobeFlex to effect securities transactions, enhance trading, and perform functions incidental to transaction execution, clearance, and settlement; and trade analytics. With the exception of one Transacting Party that provides a proprietary trading system and trade analytics, the Transacting Parties provide third-party products and services.

*Uses of Research and Brokerage.* GlobeFlex uses soft-dollar-acquired products and services in managing all accounts, regardless of the size or amount of soft dollar “credits” any particular account generates. In determining the reasonableness of “bundled” commissions, we do not typically evaluate the value of those products and services in relation to any particular transaction or transactions or in relation to investment decisions for, or soft dollars generated by, any particular account(s). Rather, consistent with Section 28(e), we consider the value that those products and services contribute to our performance of our overall responsibilities to all our clients (or all clients with substantially the same strategy), even when our use of services or products could be viewed as providing benefits to clients other than those whose accounts generated the soft dollars.

We use some products or services not only as “research” (*i.e.*, to assist in making investment decisions for clients or for effecting securities transactions) but also for our administrative and other purposes as well. These are known as “mixed use” products or services. We make a reasonable allocation of the cost of those products and services so that only the portion of the cost that is attributable to our use of the products and services for research or brokerage purposes is paid with commission dollars; GlobeFlex pays the balance. Clients should recognize that our interest in making such an allocation will differ from clients' interests, in that GlobeFlex has an incentive to maximize the research and brokerage portions of the cost in order to minimize the portion we must pay directly.

*Procedures.* GlobeFlex maintains a list of approved Transacting Parties that a best execution review team determines, through regular assessment, meet eligibility criteria for transaction business, including willingness to provide soft dollar services or products. While GlobeFlex generally does not exclude Transacting Parties from receiving business if they are not willing to do so, all Transacting Parties with which GlobeFlex did business in the last fiscal year did provide soft dollar benefits. “Bundled” commissions include a negotiated “execution” component and a soft dollar “credit” component, which is to be applied to pay for third-party research and non-execution brokerage services and products. Most of these Transacting Parties participate in a soft dollar commission sharing program in which they “send” the research/brokerage credits generated through their business with GlobeFlex to a commission management firm (aggregator) designated by GlobeFlex that, in turn, handles the payment for third-party research and brokerage products and services. GlobeFlex reconciles statements from the Transacting Party and commission aggregator each month against its own records to ensure that soft dollar commissions have been properly credited. A select small number of Transacting Parties perform their own administration of soft dollar credits and provision of research and brokerage services and products.

*Conflicts of Interest.* Although our use of soft dollars for research and brokerage services and products is protected by Section 28(e), because GlobeFlex benefits from, and would otherwise have to pay cash for, those services and products, using soft dollars for research and non-execution brokerage services and products involves a conflict of interest. While we believe our procedures prevent that conflict from adversely affecting our investment management services, using soft dollars creates incentives to, among other things: (i) pay Transacting Parties higher compensation than what would be payable to Transacting Parties that do not provide the services or products; (ii) select Transacting Parties that do not provide the best possible price; and (iii) effect more transactions than might otherwise be optimal. The Firm may also have an incentive to prefer services and products that are available using soft dollars over those that may not be.

Certain clients pay GlobeFlex a research fee in lieu of having commissions from their accounts used to generate soft dollar credits. Their accounts generally transact in the same securities, in the same proportions, and participate in aggregated transactions on the same terms, as other accounts that pursue the same Strategy (see discussion above), *except* that their commissions include only the “execution” component, not the bundled soft dollar credit component. These arrangements could be viewed as causing other clients to, in effect, subsidize research-fee accounts by generating soft dollar credits that buy research GlobeFlex uses to manage all accounts. They could also be viewed as increasing GlobeFlex’s incentives to effect more transactions for soft-dollar-paying accounts or cause those accounts to pay higher commissions, as described above. Because of, among other things, the consistency of security selection and transactions among client accounts within a particular Strategy, and GlobeFlex’s general policy of aggregating orders (see discussion above), GlobeFlex does not believe that non-research-fee clients are adversely affected by its arrangements with research-fee clients. However, determining the amount of commissions non-research-fee accounts would bear if research-fee accounts were instead generating soft-dollar credits (in order to assess the impact of research fee arrangements) is inherently hypothetical and imprecise, and there can be no assurance that non-participation by research-fee accounts in soft dollar generation does not, or will not in the future, affect other accounts’ overall commission expense. GlobeFlex evaluates the potential impact of such non-participation in connection with its ongoing assessment of its research acquisition activities and its best execution review processes.

## **Client Directed Brokerage**

Some clients direct GlobeFlex to use particular Transacting Parties for a portion of their accounts' securities transactions. They may specify a particular percentage of total commissions or merely that those Transacting Parties should be used when all other considerations are equal. Clients can specify that a particular Transacting Party is to be used even though we may be able to obtain a more favorable net price and execution from another Transacting Party in particular transactions. Such brokerage direction can reduce execution quality for those clients.

Clients who want to direct us to use a particular Transacting Party should understand that their direction could prevent us from aggregating orders with other clients or from effectively negotiating brokerage compensation on their behalf, and could therefore deprive them of possible advantages that non-designating clients might have.

Some clients have made arrangements independent of their relationship with GlobeFlex to receive rebates or similar benefits from certain Transacting Parties pursuant to "commission recapture" plans. Under these arrangements, covered transactions generally do not generate soft dollar credits. If such transactions were to constitute a significant portion of GlobeFlex clients' overall transaction volume, they could be viewed as creating an incentive for GlobeFlex to increase its overall transaction volume, in order to generate the same amount of soft-dollar credits it would have generated absent commission recapture direction. In addition, to the extent directions of these kinds reduce a particular client's share of soft dollar generation, other clients could be viewed as bearing a greater proportion of the research costs than their proportionate benefit from the acquired research among all clients, including the client(s) with the special directed brokerage arrangement(s).

## **Other**

*Cross Transactions.* GlobeFlex generally does not cause clients' accounts to buy and sell securities from or to each other ("cross" transactions), but it may do so in particular circumstances if it appears advantageous to both parties, is authorized by the relevant client agreements, and is permitted under applicable law.

*Foreign Currency Exchange Transactions.* Client accounts are typically denominated in the client's domestic currency, which in most cases is U.S. Dollars. To permit settlement of transactions in non-U.S. equity securities, and to the extent necessary to cause cash balances to be held in U.S. Dollars, we cause accounts to buy and sell the currencies in which non-U.S. equity securities are traded (i.e., convert currency into and out of local currencies), essentially contemporaneously with the underlying securities transactions.

How these Foreign Currency Exchange ("FX") transactions are effected depends on several factors including the particular currencies involved and the relevant client's custodial arrangements and instructions. For currencies for which exchange rates and/or transaction procedures are regulated by the local government (as is the case in many frontier and emerging countries), the client's custodian or other executing FX counterparty of the custodian's choice handles all aspects of the FX transaction. Subject to client instructions, many other transactions are effected by the client's custodian per the custodian's "standing instruction" program. In those cases, while GlobeFlex will indicate to the custodian that local currency will be needed to facilitate an equity trade settlement, the FX execution, including determination of exchange rates and timing of and procedures for transactions, are handled by the client's custodian in accordance with the client's arrangements with the custodian, and GlobeFlex is not involved in negotiating exchange rates. In still other cases, we are more involved, determining the currency pair, negotiating the applicable exchange rate, and placing the order ourselves. These transactions may be placed with a client's custodian or with other banks, FX brokers, or other intermediaries.

FX transactions are generally effected as “spot” transactions, typically initiated on the same day as the underlying securities transaction with a matching settlement amount and period. We do not provide currency hedging services (e.g., with currency forwards or futures contracts).

### **Item 13: Review of Accounts**

GlobeFlex’s portfolio management team, including CIO Robert Anslow, as well as others involved in administrative functions, reviews all accounts periodically to ensure compliance with all investment guidelines, restrictions, and other requirements for each account. Our investment operations team reviews client accounts on a daily and monthly basis, reconciling assets and transactions to client custodian records as needed.

GlobeFlex provides separate account clients and Private Fund investors with monthly performance and valuation reporting. We also provide customized reporting as stipulated by particular agreements with clients.

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

GlobeFlex’s overriding objective in effecting transactions (except where otherwise directed by a client) is to seek the best overall execution. We do not generally enter into agreements with or make commitments to Transacting Parties under which we are obligated to compensate them for client referrals. While there are currently no such circumstances in place, we could in the future allocate brokerage to a Transacting Party who has referred clients, as a result of our selection process and without regard to those referrals. In doing so, we would not pay higher commissions than would otherwise be payable to another Transacting Party.

We may compensate GlobeFlex employees for client referrals, including providing a bonus that is based, at least in part, on the number or amount of client referrals.

### **Item 15: Custody**

Each separate account client’s assets are held in custody by a broker-dealer or bank designated by that client, and with whom the client has a direct contractual relationship. GlobeFlex is not a party to those agreements or (generally) aware of their content. GlobeFlex does not make recommendations or requests, or impose requirements, as to a separate account client’s choice of custodian.

GlobeFlex provides separate account clients with monthly portfolio statements. Clients should compare those statements with any statements received from their custodians and notify GlobeFlex of any discrepancies.

Each of the Private Funds’ securities and funds are held by a bank or broker-dealer that GlobeFlex has selected. Because of the level of our control over the Private Funds, GlobeFlex considers itself to have “custody” of the Private Funds’ assets for purposes of the Investment Advisors Act “custody” rule. Each Private Fund provides audited financial statements, prepared in accordance with generally accepted accounting principles, to its investors within 120 days of its fiscal year end.

### **Item 16: Investment Discretion**

While our clients grant us the authority to select which and how many securities to buy or sell and which Transacting Parties to use, some impose investment objectives, parameters and restrictions (together, the “guidelines”), and/or instructions regarding Transacting Parties selection. For example, a client could require that the investment in any particular stock should not exceed a specified percentage of the account’s value. As a further example, certain clients prevent investments based upon issuer geographic location, business lines of the issuer or other preferences. GlobeFlex’s discretionary authority and a client’s investment guidelines are typically outlined in the investment management agreement with the client.

## **Item 17: Voting Client Securities**

When so directed and authorized by a client via our investment management agreement, GlobeFlex is responsible for voting proxies for securities held in the client's account(s). Where we have that authority, it is GlobeFlex's objective to vote proxies in the best interests of the client.

GlobeFlex engages Institutional Shareholder Services ("ISS") on an agency basis to provide research and voting recommendations, carry out the mechanics of the voting process, and maintain proxy voting records. Under a service agreement, ISS keeps GlobeFlex apprised of shareholder meeting dates, makes research and ballot materials available for review, and instructs votes in accordance with its voting guidelines or GlobeFlex's specific instruction. We generally do not take voting instruction from clients and our clients do not instruct ISS directly. Proxy voting will be carried out on a best efforts basis: in some cases, the timing, logistics, or cost of voting a proxy may make voting impractical, particularly in relation to the potential impact on the client's investment.

ISS has formulated guidelines, based on their research, which set forth positions on recurring issues. These serve as the foundation for the voting recommendations made to GlobeFlex. We review these policies annually when they are published, and historically have adopted them as our own. ISS's guidelines are not exhaustive and do not include all potential voting issues. Proposals not covered by the guidelines and contested situations are evaluated on a case-by-case basis for GlobeFlex's review and instruction. GlobeFlex will take into consideration all of the relevant facts and information available at the time. GlobeFlex will then communicate its voting decision to ISS. Where a client has its own policy or guidelines, GlobeFlex provides this documentation to ISS and instructs ISS to vote proxies for such clients according to those custom documents.

In voting proxies, GlobeFlex's interests could conceivably conflict with clients' interests. For example, if GlobeFlex were to be engaged by, or were or seeking to be engaged by, a client that is (or is affiliated with) an issuer of securities held in client portfolios, we could have an incentive to vote with management even if, for a particular proposal, shareholders' interests might arguably be served by voting against the proposal. Potential conflicts could also arise if a GlobeFlex employee were to have a personal and/or business relationship with issuers or officers or directors of issuers, or a personal investment in an issuer.

Under our policies, if GlobeFlex were to become aware of any such conflicts of interest with respect to a proxy vote, compliance personnel would assess the extent and nature of the conflict and we would take appropriate measures, determined on a case-by-case basis taking into account the facts and circumstances of the particular situation.

A client wishing to receive a record of their account's proxy voting activity, for up to the preceding five years, should contact their GlobeFlex client service representative. GlobeFlex will furnish the information requested, free of charge, to the client within a reasonable time period.

GlobeFlex has established a Proxy Voting Policy that details our proxy voting procedures, including those designed to comply with Rule 206(4)-6 under the Investment Advisers Act of 1940. The Proxy Voting Policy is available upon request.

## **Item 18: Financial Information**

GlobeFlex does not require or solicit prepayment of management fees. GlobeFlex has never filed for bankruptcy and is not aware of any financial condition that is expected to affect our ability to manage client accounts.

## **Additional Information: Privacy Policy**

GlobeFlex receives confidential information from, or develops confidential information about, separate account clients and Private Fund investors in the course of our business relationships with them. It includes (1) information they provide to us orally or in writing and (2) information we develop about them in the course of providing our services, such as the amount and type of assets that we manage and transactions we place on their behalf. This may include natural persons' "nonpublic personal information" where a natural person is itself the client or investor.

As a general rule, we do not disclose such confidential information to others. This is true during the course of the business relationship and thereafter. However, we do rely on certain third parties for services that are necessary to enable us to provide our investment services. These may include our attorneys, auditors, broker-dealers, and custodians who, in the ordinary course of providing their services to us, may require access to information containing confidential information. In addition, we may disclose confidential information where required by law or judicial process (such as a court order), with the relevant party's consent, or otherwise to the extent permitted under the federal privacy laws.

We also restrict access to confidential information among our own personnel. Only those who need the information in order to help us provide investment advisory services have access. It is our policy that, where we are not comfortable a service provider is already bound by duties of confidentiality (e.g., attorneys and auditors), we will require contractual assurances that they will maintain the confidentiality of any confidential information they obtain. We also maintain physical, electronic, and procedural safeguards to protect confidential information.