

## **Form ADV Part 2A**

### **Los Angeles Capital Management and Equity Research, Inc.**

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This brochure provides information about the qualifications and business practices of Los Angeles Capital Management and Equity Research, Inc. (“Los Angeles Capital” or the “Firm”). Los Angeles Capital is a registered investment adviser with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Registration as an investment adviser does not imply any level of skill or training. If you have any questions about the contents of this brochure, please contact Jennifer Reynolds, Chief Compliance Officer at 310.479.9947 or by electronic mail at [compliance@lacapm.com](mailto:compliance@lacapm.com). Additional information about Los Angeles Capital is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This brochure dated March 26, 2020, is prepared in accordance with the SEC’s rules and requirements and includes updates made since the date of our last brochure filing on December 16, 2019.

The Firm has made the following material changes to the brochure since our last update on December 16, 2019:

- Item 8 was updated to add Micro-Cap and Outcome Oriented Solutions to the list of Firm investment strategies, to incorporate new risks related to China investments, micro-cap stocks, sanctions, and UK and European markets, and to expand on counterparty, emerging markets, and equity market risks.
- Item 9 was updated to indicate that the Firm has not been the subject of any legal or disciplinary events that are material to a client’s or prospective client’s evaluation of the Firm and its investment advisory business or the integrity of its management.
- Item 12 was updated to enhance disclosures surrounding broker selection and the Firm’s trading strategy.
- Item 14 was updated to disclose one marketing and distribution agreement regarding the solicitation of a French separate account.
- Item 17 was updated to describe how Los Angeles Capital selects the proxy voting guidelines to follow for each account.

Currently, our brochure may be requested by contacting the Firm’s Chief Compliance Officer (“CCO”) at 310.479.9947 or via email at [compliance@lacapm.com](mailto:compliance@lacapm.com).

Additional information about Los Angeles Capital is also available via the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We may, at any time, update this brochure and send clients a copy by electronic mail or in hard copy form. Clients should carefully review this brochure and address any questions to the Los Angeles Capital addresses identified on the cover page of this brochure.

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**This brochure provides clients and prospective clients with information about Los Angeles Capital that should be considered before or at the time of obtaining advisory services from us. Please retain a copy of this brochure (and any updates) for your future reference.**

## **Item 4 – Advisory Business**

### **About the Firm**

Los Angeles Capital Management and Equity Research, Inc. ("Los Angeles Capital" or the "Firm") is a discretionary institutional global asset manager registered with the SEC under the Investment Advisers Act of 1940, as amended ("Advisers Act"). The Firm was founded in 2002 and its principal place of business is 11150 Santa Monica Blvd., Suite 200, Los Angeles, California 90025. The Firm offers risk controlled active equity management services to a broad range of institutional investors. The Firm has a wholly-owned subsidiary, LACM Global, Ltd. ("UK Subsidiary"), in the United Kingdom that is registered with the Financial Conduct Authority ("FCA") in the UK.

### **Leadership and Ownership Structure**

The Firm's leadership team and Board of Directors consist of Thomas D. Stevens, Chairman and Chief Executive Officer, Hal W. Reynolds, Chief Investment Officer, Daniel E. Allen, President, Stuart K. Matsuda, Chief Trading Officer, and Jennifer E. Reynolds, Chief Compliance Officer and Chief Financial Officer. Los Angeles Capital is organized as a California corporation. The Firm is 100% owned by 32 employees and as of December 31, 2019; the principal owners are Thomas D. Stevens and Hal W. Reynolds.

### **Services Offered**

The Firm provides investment management advice across a range of equity investment strategies that are broadly categorized as U.S. equities, Emerging Markets equities, Global equities, Developed Markets outside the U.S. equities, and long/short equities. The Firm employs a quantitative investment process which utilizes the Firm's proprietary investment model technology (the "Model") across each of its strategies. The Model forecasts expected returns on a broad universe of equity securities across markets. Based on these forecasts, client accounts are tailored to each client's unique objectives and investment guidelines. Client accounts are managed independent of one another in accordance with client specific mandates, restrictions, and instructions as outlined in their respective investment management agreements.

The Firm utilizes statistical techniques to evaluate a variety of metrics that have explanatory power for measuring stock price behavior and seeks to isolate and interpret how each of those factors are behaving in the current market environment. The Firm's approach involves creating and investing diversified equity accounts. Through a structured investment process, the Firm

seeks to add value relative to the specific benchmark identified for each client account or on an absolute basis.

The Firm's quantitative model technology allows the Firm to present customized solutions to its institutional clients. As an example, the Firm is able to incorporate specific environmental, social and corporate governance (ESG) information on a customized basis into its investment process.

### **Assets under Management**

As of December 31, 2019, Los Angeles Capital had approximately \$27.1 billion of client assets under management, and all assets were managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

Investment management fees vary by investment strategy, account assets under management, and other competitive factors. Investment fees charged by the Firm are generally computed as a percentage of the market value of the assets under management in the account. In some cases, clients pay a lower base fee plus a performance based fee. The specific manner in which fees are charged by Los Angeles Capital is established in a client's written investment management agreement, Limited Partnership Agreement, or other legal documentation governing the account. Clients may be billed directly for fees or they may authorize their custodian to debit fees from their account following receipt of an invoice.

Los Angeles Capital will generally bill its fees quarterly in arrears, based on the custodian or fund administrator's value of assets under management during the applicable quarter. Such fees can be calculated either (i) at the end of the applicable quarter or (ii) based on the monthly average value of assets under management during the applicable quarter. Some clients elect to have fees calculated and billed on a monthly basis. Los Angeles Capital typically has the authority to directly debit fees from the accounts of the privately offered commingled funds it sponsors and for which it provides discretionary investment advisory services (each a "Private Fund"). These directly debited fees are calculated by the Private Fund's third party administrator.

Fees are generally prorated for each capital contribution and withdrawal made during the applicable calendar month or quarter, as applicable. Accounts initiated or terminated during a billing period will be charged a prorated fee. The Firm's investment management agreements generally allow either party to terminate the applicable mandate upon prior written notice to

the other. The required notice period for termination varies across agreements. If a client mandate terminates on a date other than the end of a period used to value the account for purposes of calculating advisory or performance fees, such amounts will be prorated in accordance with the terms of the client's investment management agreement. There is no annual minimum base fee for investment advisory services. In measuring clients' assets for the calculation of performance-based fees, Los Angeles Capital typically includes realized and unrealized capital gains and losses.

Los Angeles Capital has a standard fee schedule for each strategy that is marketed by the Firm. The standard fee arrangement can be negotiated with a particular client depending on a variety of factors including whether the client is a seed investor in a new strategy, the size of the account, commitment or relationship, the particular strategy selected by the client, the client's special reporting, and other requirements for managing the account. As a result, Los Angeles Capital may offer certain clients lower or higher fees than other clients.

**Separate Accounts:** Los Angeles Capital's standard annual advisory fee schedules for separate accounts are as follows:

***Large Cap U.S. Strategies***

0.40% on the first \$25 million  
0.30% on the next \$175 million  
0.20% thereafter

***All Cap U.S. Strategies***

0.55% on the first \$25 million  
0.45% on the next \$175 million  
0.35% thereafter

***Small Cap and Small-Mid Cap U.S. Strategies***

0.75% on the first \$25 million  
0.65% thereafter

***Mid Cap U.S. Strategies***

0.65% on the first \$25 million  
0.50% thereafter

***Large Cap Non-U.S. Strategies***

0.65% on the first \$25 million  
0.55% on the next \$175 million  
0.40% thereafter

***Emerging Markets Strategies***

0.90% on the first \$25 million  
0.80% on the next \$75 million  
0.70% on the next \$100 million  
0.65% thereafter

***Global Strategies\****

0.60% on the first \$25 million  
0.45% on the next \$175 million  
0.35% thereafter

***World Strategies\*\****

0.50% on the first \$25 million  
0.40% on the next \$175 million  
0.30% thereafter

***Market Neutral Strategies***

1.00% on all assets; PLUS

***Active Extension Strategies (e.g. 120-20)***

0.20% on all assets; PLUS

20% performance fee on excess return over the benchmark

***World/World ex U.S. Small Cap Strategies***

0.85% on the first \$25 million

0.75% thereafter

20% performance fee on excess return over the benchmark

***Outcome Oriented Solution Strategies***

0.20% on all assets

***\*ACWI benchmarks***

***\*\*Includes World and EAFE benchmarks***

**Private Funds:** For eligible institutional clients who wish to invest in a commingled vehicle in lieu of a separate account, the Firm makes a few of its strategies available in an open-ended private fund format. The Private Fund management fees may differ from the fees paid by separate accounts in the same strategy. The management fee paid by each investor in the same Private Fund may also vary. The Firm has the discretion to reduce or waive fees of investors in a Private Fund, including for principals and employees of the Firm. The management fees typically are calculated and accrued monthly in arrears and paid at the end of each quarter. The Firm may agree to enter into side letters with certain investors in a Private Fund that may give such investor most favored nations terms with respect to fees, reporting, or similar items. These side letters can modify certain terms of the Private Fund offering documents or Limited Partnership Agreement as indicated in such documentation. An example would be the obligation to provide additional reporting or to provide compliance with an applicable local law for the investor. The Firm reserves the right to keep terms of the side letter confidential and to not agree to the same side letter terms with all investors. As such, certain terms available to one investor in a Private Fund may not be available to all investors in the same Private Fund.

**Collective Investment Vehicles:**

**Third-Party Mutual Funds** - The Firm receives sub-advisory fees for its services. These fees are paid monthly or quarterly in arrears based on the average daily net assets or the average of the month-end net assets for the portion of the fund managed by the Firm. The fund adviser's annual rates are disclosed in the respective prospectus, statement of additional information, or other disclosure documentation of the fund. In some cases the Firm receives performance fees from funds. The Firm's advisory, sub-advisory, and performance fees charged to fund clients are set by the respective fund's board of directors/trustees.

**Collective Investment Trusts** - The Firm receives investment advisory or sub-advisory fees for its advisory services to third party collective investment trusts. These fees are accrued daily and are calculated and payable monthly or quarterly in arrears at annual rates as described in the

collective investment trust's Disclosure Memorandum or sub-advisory agreement. The trustee or manager of the collective investment trust sub-advised by the Firm sets the Firm's sub-advisory fee.

**UCITS** - The Firm receives investment advisory fees for its advisory services to the Los Angeles Capital Global Funds plc, an investment company with variable capital incorporated with limited liability in Ireland that is authorized and regulated by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, as amended (the "LACM UCITS"). Fees accrue daily and are calculated and payable monthly in arrears at annual rates as described in the prospectus. The Firm will receive a performance fee from investors investing in a certain share class of the LACM UCITS.

The Firm receives sub-advisory fees for its services to third party UCITS. These fees are paid monthly or quarterly in arrears based on the average daily net assets or the average of the month-end net assets for the portion of the fund managed by the Firm. The third-party fund adviser's annual rates are disclosed in the respective prospectus of the fund. The Firm's sub-advisory fees charged to fund clients are set by the respective third-party fund's board of directors.

#### **Brokerage, Custodial, and Other Expenses**

For the advisory or sub-advisory services, as applicable, that the Firm provides to separate accounts, Private Funds, mutual funds, UCITS, and collective-investment trusts, the Firm receives management fees (flat fee, asset-based, and/or performance based). In addition to the Firm's management fees, clients will incur fees and expenses from third parties unaffiliated with the Firm relating to their accounts. These fees and expenses could include brokerage commissions, custodial fees, proxy voting service fees, fees charged for deferred sales charges, odd-lot differentials, transfer taxes, stamp taxes, wire transfer and electronic fund fees, other fees and taxes on brokerage accounts and securities transactions, and other transaction costs and expenses.

Clients in commingled vehicles such as the Private Funds and the LACM UCITS may also incur certain charges imposed by the third-party fund administrators and transfer agents, organizational expenses, accounting expenses, financial reporting fees, tax preparation, audit fees, legal fees, regulatory fees, insurance, bank service fees, subscription and redemption fees to help cover trading costs, class action administration fees, and any extraordinary expenses (including indemnification) as the General Partner determines in its discretion. If such costs are



incurred in connection with an investment in which more than one Private Fund or account managed by the Firm participates in, such costs incurred by the parties generally shall be borne pro-rata based on the amount invested by such entities or accounts. The governing documents for each commingled fund describes the fees and expenses allocable to the specific fund and its investors in detail. In the case of Private Funds where the Firm serves as the General Partner, the General Partner is responsible for and pays all of its ordinary overhead expenses and general operating costs and such expenses are not charged to the Private Fund or its limited partner investors. If a strategy for the account involves derivatives, the account will be required to make payments in connection with the derivatives to counterparties. Los Angeles Capital does not receive any portion of these commissions, fees, and costs.

With respect to the collective investment trusts advised by the Firm (the “CITs”), the CITs are subject to certain operational fees which might include custody fees, transfer agent fees, audit fees, reporting fees, pricing fees, and other miscellaneous operational expenses as described in the CITs’- respective governing documents prepared by the third party Trustee. These fees are deducted from the Firm’s advisory fees and are not passed through to investors in the CITs. The Firm’s advisory and operational fees are set by the third party Trustee of the CITs.

See Item 12 below for a discussion of the Firm’s brokerage practices.

#### **Important Notice in Connection with Private Funds**

This brochure may be provided to a prospective client in a Private Fund together with the Private Fund’s offering or private placement memorandum (“PPM”), organizational documents, and other related documents (“Governing Documents”), in connection with a client’s consideration of an investment in the Private Fund. While this brochure includes information about the Private Fund, it does not represent to be a complete discussion of the features, risks, or conflicts associated with the Private Fund. More complete information about the Firm’s Private Funds are included in the Private Funds’ respective PPM and other Governing Documents.

**In no event should this brochure be considered an offer of interests in a Private Fund or relied upon in determining whether to invest in a Private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this brochure is designed only to provide information about Los Angeles Capital to comply with regulatory requirements under the Advisers Act, which may cause information in this brochure to differ from the information provided in a PPM. If there is any conflict between the information in this

brochure and similar information in a Private Fund's PPM, Private Fund investors should rely on the information in the PPM.

#### **Compensation of Employee Marketing Personnel**

The Firm's employees who are engaged in marketing are not paid sales commissions. The Firm compensates marketing personnel from overall Firm revenues which practice could be construed as a conflict of interest in that it could be viewed as an incentive to recommend Firm strategies and products with higher fee schedules.

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

Los Angeles Capital manages accounts for which the Firm charges a performance-based fee, an asset-based management fee, a flat fee, or a combination of these types of fees. The management of accounts with performance-based fees has the potential to cause a conflict of interest by creating an incentive to favor accounts with performance-based fees in order to generate greater revenue for the Firm. A similar conflict exists from managing client accounts paying a higher asset-based fee than other accounts or accounts containing assets owned by the Firm, its employees, or its owners. Performance-based fee arrangements and higher fee paying accounts create an incentive for Los Angeles Capital to recommend investments which may be riskier or more speculative than those which would be recommended under a flat fee, asset-based fee, or lower fee arrangement, as applicable.

Los Angeles Capital will structure any performance fee arrangement subject to Section 205(a) (1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3 of the Advisers Act.

Los Angeles Capital's portfolio managers manage accounts that are charged a performance-based fee alongside those in the same strategy with asset-based fee schedules.

Los Angeles Capital provides investment advisory services for many clients and most advisory agreements call for customized mandates, restrictions, and guidelines. This side-by-side management can result in investment positions or actions taken for one client account that differ from those taken in another client account. Accordingly, one client account can engage in short sales of or take a short position in an investment that at the same time is owned or being purchased long by another client account. These positions and actions can adversely affect or benefit different clients at different times.

To address the conflicts of interest described above, Los Angeles Capital has adopted policies and procedures that are reasonably designed to monitor and prevent the Firm from inappropriately favoring one account over another. Procedures adopted by the Firm seek to treat all clients fairly and equally, and to mitigate conflicts among accounts including the following:

- The Firm employs a quantitative investment process which utilizes the Firm's proprietary investment model technology to identify securities and construct portfolios.
- Client accounts are managed independent of one another in accordance with client specific mandates, restrictions, and instructions as outlined in a client's investment management agreement and such restrictions and instructions are monitored for compliance with the client's investment guidelines.
- Trade allocation is determined prior to placing the trade with the broker.
- Management and performance fees inure to the benefit of the Firm as a whole and not to specific individuals or groups of individuals.
- The Firm's compensation policy is uniform across all departments in that it rewards employees for their contributions to the Firm and improvements to the investment process.
- The Firm's strategies predominantly invest in liquid common stocks.

See Items 11 and 12 below for more information about potential conflicts of interests, and see Item 12 below for detail on the Firm's trade allocation policies and procedures.

### **Item 7 – Types of Clients**

Los Angeles Capital provides account management services to various types of institutional clients as outlined below. While there is no minimum account size for separate accounts, the Firm's Private Funds and LACM UCITS have minimum initial investments identified on their respective offering documents. These minimums are typically set at either \$5 or \$10 million. Los Angeles Capital in its sole discretion, when deemed appropriate, is permitted to accept investments of less than the minimum stated in the Private Fund offering documents. The minimum initial investment in the LACM UCITS may be waived by a member of the LACM UCITS Board.

The Firm provides investment advisory services to the following types of clients:

- **Institutional Clients:** The Firm provides discretionary investment advice to public pension funds, corporations and their pension and profit sharing plans, endowments, foundations, unions and Taft-Hartley plans, insurance companies, charitable and religious organizations, pooled investment vehicles, and trusts.
- **Privately Offered Pooled Investment Vehicles:** The Firm also sponsors and provides discretionary investment advisory services to commingled funds offered on a private placement basis to eligible institutional investors. Each Private Fund is managed according to governing documents that may include a partnership agreement, articles of association, offering memorandum and/or prospectus. Third party service providers provide administrative back-office, accounting, and record keeping service, including trade settlement processing, and custodial services. Periodic reports for the Private Funds are prepared for clients generally based on the records of the service providers. The Firm has formed and currently managed the following Private Funds:
  - LACM Emerging Markets Fund L.P., a Delaware limited partnership with limited liability;
  - LACM EMII, L.P., a Delaware limited partnership with limited liability;
  - LACM Global Equity Fund L.P., a Delaware limited partnership with limited liability;
  - LACM Large Cap Alpha Fund L.P., a Delaware limited partnership with limited liability;
  - LACM Small Cap Growth Fund LP, a Delaware limited partnership with limited liability; and
  - LACM World Small Cap Equity Fund L.P., a Delaware limited partnership with limited liability.
- **Registered Investment Companies:** The Firm provides sub-advisory services to registered investment companies sponsored by unaffiliated third parties.
- **Foreign Investment Companies:** The Firm provides investment advisory services to the LACM UCITS and other unaffiliated UCITS.

- **Collective Investment Trusts:** The Firm provides advisory and sub-advisory services to collective investment trusts offered to tax qualified pension and profit sharing plans and related trusts, governmental plans, and certain other institutional investors.

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

Investing in securities involves the risk of loss that clients should be prepared to bear. An investment in any strategy by itself is not a balanced investment program for purposes of account diversification. Investors should consult with their financial adviser regarding the appropriateness of an investment in any of the following strategies for their overall investment program.

Los Angeles Capital employs a quantitative approach to select securities and construct accounts. The Firm's applications rely on an account construction process that incorporates a number of quantitative tools and models. The cornerstone of the account construction process is the proprietary investment model technology. The Model includes fundamental and market data inputs for a universe of global equity securities. Through the use of sophisticated statistical tools, the Model estimates expected returns based on each securities risk characteristics and the expected return to each characteristic. The Firm's Model technology incorporates a variety of statistical techniques, some standard and some proprietary, which assist the investment team in evaluating the characteristics of equity securities and their expected payoffs.

Los Angeles Capital periodically considers enhancements to its Model technology. These enhancements may not provide the intended results, and could adversely affect performance. While Los Angeles Capital makes every reasonable effort to ensure that its process works as intended, there is no guarantee that any specific enhancement or revision to the Model technology will work as expected or that no further revision will be required.

Los Angeles Capital makes every reasonable possible effort to reduce the likelihood of material errors occurring during the implementation of the Model process. Regardless of the effectiveness of the Firm's risk mitigation efforts, it is not possible to completely eliminate the risk of error as it relates to the programming or coding of the systems that govern the account management and trading functions which could adversely affect a client's account.

### **Quantitative Approach Risks**

There are two types of risk involved with the quantitative management process, market risk and active management risk. Market risk refers to the risks associated with the volatility of

equity securities and these risks, which are not diversified away, must be assumed by the investor in the strategy. Active management risk refers to the risk of underperforming the client's benchmark. While the Firm seeks to control the level of active management risk consistent with each client's investment guidelines, there will be periods when the active management process generates negative returns relative to the applicable benchmark. This may occur due to a shift in market sentiment where previously favorable characteristics become penalized due to estimation or other errors in the forecasting or risk management process.

Los Angeles Capital employs a rigorous risk management process. While the Firm invests in securities that are primarily liquid and may be easily traded, under adverse market conditions certain securities can, from time to time, become difficult to trade. The Firm seeks to reduce the risk of adverse impacts which may come about with aggressive or higher frequency trading approaches.

The account construction process relies heavily on the use of proprietary and non-proprietary data, software, and intellectual property that the Firm licenses from a variety of sources. The quality of the stock selections produced by the account construction process depends on a number of factors including the accuracy of voluminous data inputs into the quantitative models used in the investment process, the mathematical and analytical underpinnings of the coding, the accuracy in translating those analytics into program code, the speed that market conditions change, and the successful integration of the various quantitative models in the account selection process.

Each component of the investment process has elements that present the possibility for human error. Because the financial markets are constantly evolving, most trading systems and models require enhancements. There is no guarantee that such enhancements to the various quantitative models will be implemented on a timely basis or that they will be successful. The use of a trading system or model that is not effective could at any time have a material adverse effect on the performance of an account.

#### **Systems Failures; Cybersecurity Breaches**

The operations of the Firm are dependent on technology information and communication systems. A failure of any such system or a security breach or cyberattack could significantly disrupt the Firm's operations. The service providers to the Firm are also subject to cybersecurity threats. If a service provider fails to adopt, implement or adhere to adequate cybersecurity measures, or in the event of a breach of its networks, information relating to the Firm, the

Firm's operations and personal information relating to clients and/or accounts may be lost, damaged or corrupted or improperly accessed, used or disclosed.

The increased use of mobile and cloud technologies can heighten these and other operational risks. Although the Firm has systems and processes in place to protect against the occurrence of system failures and breaches, any system failure, security breach or cyberattack could have a material adverse effect on the Firm. Any such system failure, security breach or cyberattack on the Firm, or any of its service providers, could cause the Firm to suffer substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; and unauthorized use of proprietary information. The Firm could also suffer, among other things: disruption to its business; its trading capabilities and the ability of the Firm to transmit payments, including to clients; increased operating costs; liability to third parties; regulatory intervention; and reputational damage.

### **Risks of Errors**

The nature of complex quantitative investment management processes is such that errors may be extremely hard to detect and in some cases, an error can go undetected for a long period of time. In many cases it is not possible to fully quantify the impact of an error given the dynamic nature of the quantitative models and changing markets. While the Firm has a number of controls designed to assure that the account construction process operates as intended, analytical errors, software errors, development errors, and implementation errors, as well as data errors are inherent risks.

The Firm views errors as falling into one of four primary categories: clerical errors, trade errors, investment process errors, and data errors.

***Clerical Errors*** – Clerical errors relate to trade corrections made subject to firm and custodian established tolerances. Clerical errors are resolved through clerical corrections and are not compensatable to the client.

***Trade Errors*** – A trade error is an error by the Firm or a third party service provider directly related to the trading process on behalf of a client's account. Trade errors typically fall into one of the following categories: (i) execution; (ii) overdraft errors; or (iii) guideline errors. Execution errors relate to trades that record an unintentional transaction. For example, if the Firm sells more shares than are owned in a client's account, a buy is executed as a sell, etc. Overdrafts result in an account being negative

cash as of settlement date. Overdrafts may or may not constitute a trade error depending on the circumstances and the client's contractual arrangements. A guideline error is the result of a violation of a client's contractual investment guidelines.

The Firm adheres to industry standards that clients should not suffer losses on account of trade errors. As a result, Los Angeles Capital will not use client accounts to absorb trade errors that occur in other client accounts. This includes the prohibition of using client accounts to absorb trade errors in Firm proprietary accounts. Soft dollars may also never be used to fix or remedy a trade error.

If the execution error is directly caused by the Firm, it will reimburse the amount of the direct loss to the client. If an execution error results in a gain to the client's account, the client's account will retain the gain, where possible. If the account is unable to accept the gain, the Firm will work with the client to remedy the situation in a manner acceptable to the client.

If the execution error was caused by a third party, the Firm will work with the third party to ensure the third party resolves the error in a manner acceptable to the client.

If the execution error is discovered before settlement, the Firm will first seek to break the trade, revise the trade allocation, or take other corrective measures deemed beneficial to the client.

Depending on the circumstances and a client's contractual agreement an overdraft that causes a loss to a client account and is determined to (i) exist upon settlement date; and (ii) has been directly caused by the Firm's actions or inactions; and (iii) the loss exceeds the Firm's de minimis level of ten dollars, the client's account will be made whole.

Trade errors caused by a third party are not covered by the Firm's error policy.

**Investment Process Errors** - Investment process errors are those errors that occur during the process of account construction. Examples of investment process errors include analytical errors, software errors, program code errors, development errors, model and code implementation errors, and account parameterization errors. An account parameterization error that results in a guideline breach should be promptly escalated to Compliance and resolved in a manner that is consistent with the Firm's contractual obligations and fiduciary duty to the client.



Generally, the Firm does not consider an investment process error to be a breach of duty when it acts in good faith in light of the handling of the resolution of such an error. In some cases, the complexity involved and the indeterminate nature of an undertaking to correct an investment process error may cause Los Angeles Capital to, in good faith and in accordance with its obligations, decide not to correct an error if doing so would be imprudent or otherwise not in the best interests of client considerations or if the cost of the fix greatly outweighs the benefit. In addition, Los Angeles Capital may, in its discretion, determine not to disclose investment process errors not otherwise determined to be compensable or constituting material information to affected clients.

Investment process errors caused by a third party are not covered by the Firm's error policy.

**Data Errors** - Los Angeles Capital receives volumes of data from vendors, some of whom aggregate data from a variety of third party sources. Those data sources and the analytics generated by such data are continuously being updated and corrected. Despite Los Angeles Capital's efforts to monitor and correct data, it is always possible and often likely that there is some amount of data that is not perfectly correct, thus resulting in a data error. The Firm does not consider routine corrections/updates from data vendors to be compensable.

The Research department seeks to identify the most appropriate tools that will facilitate the analysis process but does so in a way that is also mindful of the risks with each tool. The Firm is aware of the risks of putting too great an emphasis on any one particular aspect of the process and, as a result, attempts to measure and control the risks associated with each of these techniques. The majority of tools utilized by the Firm would be considered standard methodologies embraced by other practitioners in the industry.

### **Investment Strategies**

While most accounts have unique investment guidelines and a number of accounts have a custom strategy, most of the accounts generally fall within one of the following equity strategies:

- U.S. All Cap: An equity strategy which seeks to outperform benchmarks such as the Russell 3000 Index and the Wilshire 5000 Index;

- U.S. Large Cap: An equity strategy which seeks to outperform benchmarks such as the S&P 500 Index, Russell 1000 Index, MSCI US Index, and FTSE US Index;
- U.S. Mid Cap: An equity strategy which seeks to outperform benchmarks such as the S&P Mid Cap Index and the Russell Mid Cap Index;
- U.S. Small Cap: An equity strategy which seeks to outperform benchmarks such as Russell 2000 Index, and MSCI US Small Cap Index;
- Emerging Markets: A core emerging markets equity strategy which seeks to outperform benchmarks such as the MSCI Emerging Markets Index;
- EAFE, World, Global Equity: An equity strategy which seeks to outperform benchmarks such as the MSCI EAFE Index, and MSCI World Index;
- Global Equity Managed Volatility: An equity strategy which seeks to outperform benchmarks such as the MSCI ACWI Minimum Volatility Index;
- Long/Short Active Extension (130/30): An equity strategy which seeks to outperform benchmarks such as the S&P 500 Index;
- Long/Short Absolute Return: An equity strategy which seeks to outperform benchmarks such as the S&P 1500 Composite Index and T-Bills;
- U.S. Deep Value: An equity strategy which seeks an absolute return using candidate lists from the S&P 1500 Value Index and the Russell 3000 Value Index; and
- World Small Cap: An equity strategy which seeks to outperform benchmarks such as the MSCI World Small Cap Index.
- U.S. Micro-Cap: An equity strategy which seeks to outperform benchmarks such as the Russell Microcap Index.
- Outcome Oriented:
  - World Defensive Income: A world equity strategy for retirees who require a high dividend yield and downside protection to deliver consistent income in retirement and better capital preservation than traditional equity portfolios.

- Dividend Growth: A world equity strategy for investors in the latter phases of employment or early retirement who require inflation protection to preserve the real value of future income.
- Wealth Builder: A world equity strategy for investors beginning to save for retirement and who are able to withstand above-average levels of market risk while seeking to increase long-term results.

Accounts are typically managed with a specific benchmark along with return/risk parameters. Investments in securities that are subject to market forces, risk the permanent loss of capital as a result of adverse market developments, which developments can be unpredictable. To the extent that an account is concentrated in any one particular strategy, the risk of any incorrect investment decision is increased.

The Firm may add strategies, undertake custom strategies, remove strategies or modify any of the strategies it employs and this includes any of the strategies discussed above. There can be no assurances that the objectives associated with a strategy will be met.

### **Strategy Risks**

The principal risks of investing in the Firm's equity strategies are as follows:

- **Account Management Risks:** the risk that an investment strategy may fail to produce the intended results.
- **Broker-Dealer Risks:** with respect to strategies that employ short selling, some or all of an account's assets are held in one or more margin accounts at the prime broker, which may provide less segregation of client assets than would be the case with a more conventional custody arrangement. This is a risk that the brokerage firm ceases to operate and is not covered by adequate insurance. In the event the prime broker experiences severe financial difficulty, an account's assets could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time while the prime broker's business is liquidated, resulting in a loss to the account.
- **China Investments Risks:** investments in China-based issuers or those associated with the country, such as those with operations there or deriving revenue from local operations, can be subject to considerable degrees of economic, political, and social instability. The Chinese government can significantly influence China's economy through government industrial policies, monetary policy, management of currency exchange rates, and management of the payment of foreign currency-demand obligations.

Changes or uncertainty in government policies or direction can adversely impact industries or companies in China.

- Certain investment in China via listed A-shares (shares of mainland Chinese companies) may trade through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect programs (“Stock Connect”), which involve additional risks. The Stock Connect is a novel concept that requires the use of developing settlement, banking, and legal systems, which may include significant penalty for failed trades. In addition, the relevant regulations are untested and subject to change, and there is no certainty as to how they will be applied. Furthermore, investment in China A-shares via Stock Connect is subject to certain foreign ownership limitations and same-day trading limits which may restrict the ability to invest in China A-shares through the program on a timely basis and as a result, the ability to access the China A-shares market will be adversely affected. Additionally, the Stock Connect may suspend or limit trading in the China A-shares available via Stock Connect, which would limit an investor’s ability to sell stock and repatriate capital. Those exchanges can have a higher rate of stock suspensions than exchanges in other emerging markets. Stock Connect available securities generally may not be sold, purchased, or otherwise transferred other than through Stock Connect and investors may have to rely on a third party nominee to be able to enforce shareholder rights. Stock Connect securities are traded in renminbi, so investors investing with their home currency will face foreign exchange risks, including governmental foreign exchange control policies, relative to their home currency.
- **Counter Directional Risks:** Los Angeles Capital may take a long position in securities of an issuer in the client’s account managed by the Firm while at the same time going short on the same issuer in another account managed by the Firm. Conversely, Los Angeles Capital could have a short position in an account while at the same time going long on the same issuer in another account. These situations occur due to differences in the risk and guideline constraints and exposures governing a client’s account in comparison to the other accounts managed by the Firm. Los Angeles Capital has procedures in place that are designed to minimize conflicts of interest in these situations.
- **Counterparty Risks:** the risk of settlement default by any counterparty and the exposure to credit risk of parties with whom the account trades. Potential counterparties that trade in the securities of emerging markets issuers may not possess,

adopt, or implement creditworthiness standards, financial reporting standards, or legal and contractual protections similar to those in developed markets.

- **Currency Risk:** for those strategies investing in non-U.S. companies, risks that there may be unfavorable fluctuations in currency exchange rates, restrictions on exchange, and other currency risks. Adverse changes in currency exchange rates relative to the U.S. Dollar may erode or reverse any potential gains from an account's (or a portion of an account's) investment in securities denominated in foreign currency or may widen existing losses. Depending on the particular mandate, the Firm may engage in currency transactions either on a spot (i.e., cash) basis at the rate prevailing in the currency exchange market, or by entering into forward foreign currency exchange contracts to purchase or sell currencies as agent for the Firm's client. In entering into a forward foreign currency exchange contract, our client is dependent upon the creditworthiness and good faith of the counterparty. Spot and forward contracts involve the risk that anticipated currency movements will not be accurately predicted which may result in unlimited losses to our client. Using forward foreign currency exchange currency contracts does not eliminate fluctuations in the underlying prices of the securities. Forward foreign currency exchange contracts simply establish a rate of exchange that can be achieved at some point in the future. Forward foreign currency exchange contracts are not standardized and are not traded on exchanges designated by the U.S. government. Forward foreign currency exchange contracts are not guaranteed by an exchange or a clearing house and the failure of a counterparty with whom a forward contract is made would likely result in a default. It may be difficult to enforce the contractual obligations of a non-U.S. counterparty in the event that a counterparty refuses to perform under a forward contract.
- **Derivatives Risks:** for those strategies that are permitted to invest in derivatives (including options, forward contracts, and swap contracts), the risks of increased illiquidity and leverage that can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss.
- **Emerging Markets Risks:** for emerging markets accounts or strategies that have a portion invested in emerging markets there are a number of risks associated with investing in foreign securities including:
  - The small size of markets for such securities and the low or non-existent volume of trading that potentially results in a lack of liquidity and greater price volatility—this risk may be greater with respect to small cap emerging markets companies;

- Less political, social, and economic stability;
- The existence of certain national policies which may restrict investment opportunities including restrictions on investment in issuers or industries deemed sensitive to national interests;
- Risks associated with foreign taxes, nationalization, and expropriation (without adequate compensation). Emerging markets countries typically have less well-defined tax laws and procedures and laws may permit retroactive taxation so that a portfolio could in the future become subject to local tax liabilities that had not been anticipated in conducting its investment activities or valuing its assets;
- Risks associated with restrictive currency controls. Some emerging market currencies may not be internationally traded or may be subject to strict controls on foreign investment by local governments as well as restrictions on currency conversions and limits on repatriation of invested capital. This can result in the improper valuation of currencies. Future restrictive exchange controls could prevent or restrict a company's ability to make dividend or interest payments in the original currency of the obligation. In addition, even though the currencies of some emerging markets countries may be convertible into US dollars, the conversion rates may be different than the actual market values and may be adverse to a portfolio;
- The absence of developed legal structures governing foreign investments or allowing for judicial process to address injury to private property;
- Risks that accounting, financial reporting, and audit standards may not exist or be lacking and that there may be less information available;
- A portfolio may have limited access to, or there may be a limited number of potential counterparties that trade in the securities of emerging markets issuers;
- Risks associated with settlement and clearance procedures that differ from those in the U.S. markets such as differences in the timing of or delays in the payment for or delivery of securities that are not typically associated with U.S. investments;
- Risks associated with higher brokerage, custody, and tax costs as compared to those of the U.S. markets;
- The absence of a long term capital markets structure or market-oriented economy and the possibility that recent favorable economic developments in some emerging countries may be slowed or reversed by unanticipated political or social events in such countries. In addition, many emerging countries have

experienced substantial and, in some periods extremely high rates of inflation which may have negative effects on the economies and securities markets in certain countries.

- **ERISA Restrictions Risks:** If one of the open-ended Private Funds managed by Los Angeles Capital is deemed to hold “plan assets” for purposes of ERISA, such fund will be restricted from investing in any securities which are issued by any employer corporation which is a sponsor of a qualified plan, which is itself an investor and will be subject to other restrictions which it otherwise would not be were it not holding “plan assets.”
- **Equity Market Risks:** the risk that stocks and other equity securities generally fluctuate in value more than bonds and may decline in value over short or extended periods based on changes in a company’s financial condition, overall market conditions, such as real or perceived economic and political conditions, recessions, inflation, trading suspensions, public health risks, and perceptions regarding the industries in which an account is invested, or factors and events related to specific companies in which an account is invested. These conditions may affect developed countries as well as emerging markets.
- **Foreign (Non-U.S.) Investment Restrictions:** for those strategies investing in non-U.S. companies, risks that foreign countries may limit the amount of investments by foreign persons or limit investments to certain classes of securities.
- **Foreign (Non-U.S.) Securities Risks:** for those strategies investing in foreign securities, including depositary receipts, there are risks that are not associated with investing in U.S. securities that can adversely affect an account performance. Foreign markets, particularly emerging markets and to a greater extent small or mid cap emerging markets, may be less liquid, more volatile, and subject to less government supervision than U.S. markets. The value of an account’s investment may be negatively affected by currency exchange rate fluctuations. There may be difficulties enforcing contractual obligations, and it may take more time for trades to clear and settle. There may be higher brokerage commissions and custody fees and in some foreign markets there may not be strong protections against failure by other parties to complete transactions.
- **Foreign (Non-U.S.) Taxation Risk:** for those strategies investing in non-U.S. companies, risks that different tax regimes in foreign jurisdictions may subject investors to withholding or other taxation that would not be imposed in other markets.
- **General Partner Conflicts:** risks associated with the Firm serving as General Partner and investment adviser trading on behalf of various accounts with similar objectives with the potential for conflicts in determining how to allocate trading opportunities.



- **Geographic Concentration Risks:** risks that investments could be concentrated in companies located in similar regions with similar reactions to political, social, and economic developments with the potential for being adversely affected by legislative changes affecting the values of companies in such regions.
- **Globalization Risks:** the risk that the growing interrelationship of all global economies and financial markets has increased the effect of conditions in one country or region on issuers of securities in a different country or region.
- **Indemnification Limits:** risks that limited partners in commingled Private Funds advised by the Firm may have more limited rights of action given the indemnification limits in Fund governing agreements.
- **Investments in ETFs:** risks associated with additional fees and expenses associated with ETFs and the risks that in less efficient markets, it may be difficult to match an ETF seller with a buyer.
- **Investments in Larger, More Established Companies:** for those strategies that invest in larger, more established companies, there are risks associated with their larger size. For example, larger, more established companies may be less able to respond quickly to new competitive challenges, such as changes in consumer tastes or innovation from smaller competitors. Also, larger companies are sometimes less able to attain the high growth rates of successful smaller companies, especially during extended periods of economic expansion.
- **Investments in Micro-Cap, Small, and Mid-Sized Companies:** for those strategies that invest in micro-cap, small, and mid-sized companies, there are risks associated with less predictable earnings, limited product lines, limited markets, limited distribution channels and financial resources with management of such companies being limited to few key personnel. The market movements of these companies may be more abrupt and volatile than those related to larger, more established companies, or the stock market in general and small-sized companies, in particular, are generally less liquid than the equity securities of larger companies and this could make it difficult to sell a small company security at a desired time or price. In general, smaller sized companies are also more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources. In addition, relative to larger capitalization company stocks, the stocks of micro-cap, small, and mid-sized companies are thinly traded, and purchases and sales may result in higher transaction costs.
- **Investment Style Risks:** the risk that the particular style or set of styles that the Firm primarily uses may be out of favor or may not produce the best results over short or



longer time periods and may increase the volatility of the value of the investment account.

- **Issuer Risks:** the risk that the value of a security may decline for reasons directly related to the issuer such as management performance, earnings, financial leverage, reductions in asset values, and reduced demand for the issuer's goods or services.
- **Leverage Risks:** for accounts with a long/short, market neutral, or a limited shorting strategy, the account's strategy is inherently leveraged and the account will be exposed to the risk of investment leverage. Because the use of leverage effectively compounds investment exposure, it can improve the return on invested capital if the leveraged investments increase in value.
- **Limits on GP Obligations:** the risk applicable to commingled Private Funds that the Firm, as General Partner, is only required to devote such time as the General Partner deems appropriate and the risks that limited partners are dependent on the judgment and skill of the General Partner in setting the level of commitment.
- **Liquidity Risk:** the risk associated with any event, circumstance, or characteristic of an investment or market that negatively impacts a portfolio's ability to sell, or realize the proceeds from the sale of, an investment at a desirable time or price. Securities that are illiquid can be received in connection with corporate actions. Any securities that are thinly traded can be difficult to sell within a reasonable time and at a fair price. Furthermore, when a market is or becomes less liquid, a portfolio invested in securities from such market is more susceptible to loss of value. Less liquid instruments also can fall more in price than other instruments during periods when markets decline generally.
- **Non-Diversification Risks:** the risks that the account may be subject to wider fluctuations in value than if it were subject to broader diversification requirements.
- **Operational Risk:** risks that arise from factors such as processing errors including human errors, inadequate or failed internal or external processes, failures in systems and technology, changes in personnel, and errors caused by third-party service providers or trading counterparties. For example, Los Angeles Capital provides corporate action administrative and processing services. In most cases, it is the responsibility of the custodian for the account to (i) timely and effectively communicate the corporate action notices to the Firm and (ii) once instructed, to execute the instructions accurately. In those cases where a corporate action notice is not received in a timely fashion, the Firm may be unable to take action or required to take different action than desired. This may result in different actions taken for different accounts. Although the Firm attempts to

minimize such failures through controls and oversight, it is not possible to identify all of the operational risks that may affect an account or to develop processes and controls that completely eliminate or mitigate the occurrence of such failures.

- **Performance Fee Risk:** for those accounts that pay performance fees based on unrealized gains, risks that fees paid on an unrealized gain may never be realized. Performance fees may provide incentives for making riskier investments.
- **Political and Economic Risks:** risks associated with changes in economic and tax policies, government instability, wars, or other geopolitical or economic actions or factors.
- **Pooled Funds:** for those clients investing in pooled vehicles, there is the risk of expenses that vary depending on the size of the investments by other investors in the vehicle as well as the risk of substantial redemptions requiring the liquidation of positions at an inopportune time or on unfavorable terms. Investors in pooled funds should carefully read the risk section of the offering memorandum or private placement memorandum that is tailored to the strategy and terms of such fund.
- **Price Volatility Risk:** the risk that the value of the investment account will change as the prices of its investments goes up or down.
- **Real Estate-Related Investment Risk:** Investments in real estate investment trusts ("REITs") and in securities of other companies (wherever organized) principally engaged in the real estate industry subject a portfolio to, among other things, risks similar to those of direct investments in real estate and the real estate industry in general. These include risks related to general and local economic conditions, possible lack of availability of financing and changes in interest rates or property values. REITs are also subject to the risk of failing to qualify for favorable tax treatment under the Internal Revenue Code of 1986, as amended. The failure of a REIT to continue to qualify as a REIT for tax purposes can materially and adversely affect its value.
- **Regulatory Risks:** for those strategies investing in non-U.S. companies, risks that there may be less government supervision and regulation of foreign securities markets with foreign companies being subject to less stringent and less uniform accounting, auditing and financial reporting standards and disclosure requirements, and reduced and less reliable publicly available information about foreign markets and issuers.
- **Reliance on Corporate Management and Financial Reporting:** The Firm's strategies rely on financial information made available by the many companies in which the Firm invests. The Firm has no ability independently to verify the financial information disseminated by such public companies and is dependent upon the integrity of both the

company's management and the financial reporting process in general. Accounting irregularities, fraud and mismanagement by a company can result in false reporting and losses to investors relying on such company reports.

- **Responsible Investing Risk:** accounts with socially responsible investment constraints limit the number of investment opportunities available to such accounts, and as a result, at time, an account may produce different returns than accounts not subject to such constraints. Accounts that employ a tilt toward better ESG scoring companies carries the risk that the account could underperform when compared to similar strategies that do not utilize ESG factors or screening. The Firm's ESG criteria may result in the account forgoing opportunities to buy certain securities when it might otherwise be advantageous to do so, or selling securities for ESG reasons when it might be otherwise disadvantageous for it to do so. Furthermore, the Firm's assessments of ESG characteristics may at times reduce an account's exposure to market sectors or types of investments that produce positive investment performance. In addition, there is a risk that the companies identified by the Firm's ESG strategy do not operate as expected when considering ESG issues. The application of ESG principles and the perceptions of the commitment of a given company to ESG principles vary among investors, analysts and other market observers. Consequently, the Firm's assessments respecting the ESG characteristics associated with any company may differ from the perceptions of other persons. The Firm's proprietary scoring methodology used to identify companies better managing their ESG risks is dependent upon information and data that may be incomplete, inaccurate or unavailable, which could cause the Firm to incorrectly assess a company's ESG performance.
- **Sanctions Risks:** it is possible that the U.S., other nations, or other governmental entities could impose sanctions against issuers in various sectors of certain foreign countries. This could limit a portfolio's investment opportunities in such countries, impairing the portfolio's ability to invest in accordance with its investment strategy and/or to meet its investment objective. In addition, an imposition of sanctions upon such issuers could result in an immediate freeze of the issuers' securities, impairing the ability of a portfolio to buy, sell, receive, or deliver those securities. Further, current sanctions or the threat of potential sanctions may also impair the value or liquidity of affected securities and negatively impact a portfolio.
- **Sector Risks:** risks that a significant amount of an account could be invested in certain sectors which may be subject to specific risks such as governmental monetary and fiscal policies that could negatively affect a particular sector.

- **Short Sale Risks:** for those strategies that permit short sales, the unlimited risk of an increase in the market price of securities sold short. In addition, global regulatory prohibitions on short sales may impair the Firm's ability to implement its investment process. Bans may add additional constraints to a strategy, which may increase transaction costs as well as the time required to monitor compliance with the restrictions.
- **Tax Risk:** The Firm's investment process does not take into consideration a particular client's tax characteristics or attributes, including those that specifically apply to the account. Clients should consult with their own tax advisers.
- **Turnover:** the risks associated with market movements and account turnover with associated higher brokerage costs and the potential for higher current realization of capital gains.
- **United Kingdom and European Markets Related Risks:** Portfolios that have significant exposure to the United Kingdom (UK) and European countries can be expected to be impacted by the political and economic conditions within such countries. There is continuing uncertainty around the future of the euro, GBP, the UK, and the European Union (EU) following the result of the UK's withdrawal from the EU effective January, 2020. At present there is still a significant degree of uncertainty regarding the plans and laws that will go into effect following the exit. Brexit (and in particular a no-deal Brexit) could cause disruptions, including greater market volatility and illiquidity, currency fluctuations, deterioration in economic activity, a decrease in business confidence, and the possibility of a recession in the UK, the EU, and/or other countries. While it is not possible to determine the precise impact these events may have on a portfolio, during the near term period and beyond, the impact of the UK, the EU countries, and other countries that transact with the UK and EU, and the broader global economy could be significant and could adversely affect the value and liquidity of a portfolio's investments. In addition, if one or more countries were to exit the EU or abandon the use of the euro as a currency, the value of investments tied to those countries or the euro could decline significantly and unpredictably.
- **Use of Simulations:** Firm may present simulated performance to an institutional client or prospect for a strategy that is not then offered by the Firm. Simulated results are developed using the current version of the Firm's model technology and do not represent actual trading or changes in the Firm's model that have occurred over time. Such simulations have inherent limitations and were designed with the benefit of hindsight. In addition, such simulations may not take into account guidelines that a

client ultimately wishes to impose or the use of proprietary trading techniques. There can be no assurance that the actual performance of a strategy will match the simulated performance.

- **Valuation Risks:** Valuation of account investments may be difficult, such as during periods of market turmoil or reduced liquidity, and for investment that may, for example, trade infrequently or irregularly. In these and other circumstances, an investment may be valued using fair value methodologies, which are inherently subjective, reflect good faith judgments based on available information and may not accurately estimate the price at which the account could sell the investment at that time.

### Item 9 – Disciplinary Information

Registered investment advisers are required to disclosure in this Item all material facts regarding any legal or disciplinary events that would be material to a client’s or prospective client’s evaluation of the Firm or the integrity of its management. Los Angeles Capital has no information to report applicable to this Item.

### Item 10 – Other Financial Industry Activities and Affiliations

#### **Broker, Dealer, Commodity Registrations**

As of March 2020, none of Los Angeles Capital, its UK Subsidiary, and their respective management persons are registered or have an application pending to register as a broker-dealer, representative of a broker-dealer, futures commission merchant, commodity pool operator or commodity trading advisor.

The UK Subsidiary is discussed in Item 4 above, and each employee of the UK Subsidiary is deemed to be “a person associated with” Los Angeles Capital (as defined in Section 202(a)(17) of the Advisers Act) and are subject to Los Angeles Capital’s supervision and control.

#### **Other Material Relationships**

**Limited Partnerships** - Los Angeles Capital acts as both the general partner and the investment adviser to the following privately offered limited partnerships.

The LACM Large Cap Alpha Fund L.P. (the “LCAF Partnership”) was organized to invest primarily in long and short positions of large capitalization equity securities and futures and derivative contracts in the U.S. markets. The LCAF Partnership employs a long/short equity investment strategy by maintaining both long and short positions of large cap equity securities so that the net equity exposure, long allocation less short allocation, is maintained at approximately 100%. The LCAF Partnership is privately offered to a limited number of qualified institutional investors in reliance on the exemption from registration provided by Section 4(a) (2) of the Securities Act and Rule 506 thereunder.

The LACM Emerging Markets Fund L.P. (the “EMF Partnership”) was organized to invest primarily in long positions of equity securities listed in the MSCI Emerging Markets Index and futures and derivatives contracts related thereto. The EMF Partnership employs a long equity investment strategy. The EMF Partnership is privately offered to a limited number of qualified institutional investors in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act and Rule 506 thereunder.

The LACM EMII, L.P. (the “EMII Partnership”) was organized to invest primarily in long positions of equity securities listed in the MSCI Emerging Markets Index and futures and derivatives contracts related thereto. The EMII Partnership employs a long equity investment strategy. The EMII Partnership is privately offered to a limited number of qualified institutional investors in reliance upon the exemption from registration provided by Section 4(a) (2) of the Securities Act and Rule 506 thereunder.

The LACM Global Equity Fund L.P. (the “GEF Partnership”) was organized to invest in long positions of equity securities primarily in the developed and emerging markets of the MSCI All Country World Index and futures and derivatives contracts related thereto. The GEF Partnership employs a long equity investment strategy. The GEF Partnership is privately offered to a limited number of qualified institutional investors in reliance on the exemption from registration provided by Section 4(a) (2) of the Securities Act and Rule 506 thereunder.

The LACM Small Cap Growth Fund L.P. (the “SCGF Partnership”) was organized to invest primarily in a broad and diverse group of readily marketable equity securities of U.S. small cap companies that are in the Russell 2000 Growth Index. The SCGF Partnership employs a long equity investment strategy. The SCGF Partnership is privately offered to a limited number of

qualified institutional investors in reliance on the exemption from registration provided by Section 4(a) (2) of the Securities Act and Rule 506 thereunder.

The LACM World Small Cap Equity Fund L.P. (the “WSCF Partnership”) was organized to invest primarily in a broad and diverse group of readily marketable equity securities of small cap companies in the developed markets of the MSCI World Small Cap Index. The WSCF Partnership employs a long equity investment strategy. The WSCF Partnership is privately offered to a limited number of qualified institutional investors in reliance on the exemption from registration provided by Section 4(a) (2) of the Securities Act and Rule 506(b) thereunder.

Los Angeles Capital has engaged Grant Thornton LLP to audit the financials of its privately offered limited partnerships as well as those of the Firm.

**LACM UCITS** - Los Angeles Capital acts as the investment adviser to the Los Angeles Capital Global Funds plc, a UCITS fund registered with the Central Bank of Ireland. The LACM UCITS has three sub-funds, Los Angeles Capital Global Fund, LACM World Defensive Income Equity Fund, and LACM ESG Solutions Fund – U.S. Each of the sub-funds seeks to provide capital appreciation by investing in diversified portfolios of equity securities which are listed, traded, or dealt-in on regulated markets. In countries where the UK Subsidiary is authorized, the UK Subsidiary acts as a distributor of the LACM UCITS to institutional investors in countries where the applicable sub-funds are registered or where there is an available exemption from registration.

Los Angeles Capital has engaged Grant Thornton (Ireland) to audit the financials of the LACM UCITS.

**Collective Investment Trust** - Los Angeles Capital provides advisory services to a collective investment trust, the Los Angeles Capital Master Collective Investment Trust that includes various sub-trusts in which qualified plans invest assets.

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

Los Angeles Capital has implemented a Code of Ethics that establishes the rules of conduct for Los Angeles Capital and its wholly-owned subsidiaries to assist the Firm in meeting the requirements of Rule 204A-1 of the Investment Advisers Act, Rule 17j-1 of the Investment Company Act of 1940, and the Financial Conduct Authority Principles for Business and Conduct of Business. These policies and procedures generally relate to the Firm’s standards of business



conduct and employee personal trading practices that are designed to manage any actual or potential conflicts of interest.

### **Code of Ethics**

Los Angeles Capital anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will buy, sell, or hold securities in client accounts that are directly or indirectly held by Los Angeles Capital and/or its employees. As a result, Los Angeles Capital's employees and their family members, including a spouse or domestic partner, a minor child, any relative or significant other living in the employee's household ("Related Parties") are required to follow Los Angeles Capital's personal trading procedures.

### **General Principles**

The Firm acts as a fiduciary to its clients and investors and therefore has an affirmative duty of care, loyalty, honesty, and good faith to act in the clients' best interests. The Firm's personnel have an obligation to uphold these duties. At a minimum, the Firm and its employees must conduct themselves in accordance with the following principles:

- the duty to place the interests of clients before the Firm and themselves at all times;
- the duty to conduct business with integrity;
- the duty to act in a professional and ethical manner;
- the duty to act with skill, competence, and diligence;
- the duty to communicate with clients in a timely and accurate manner;
- the requirement that all personal securities transactions be conducted in such a manner as to be consistent with the Firm's Code of Ethics and to avoid any actual or potential conflict of interest or any abuse of an employee's position of trust and responsibility;
- the duty to protect client assets;
- the duty to take reasonable care to organize and control the Firm's affairs responsibly and effectively, with adequate risk management;
- the principle that investment adviser personnel should not take inappropriate advantage of their position;
- the duty to keep information concerning the identity of security holdings and the financial circumstances of clients confidential;
- decisions affecting clients are to be made with the goal of providing suitable advice and equitable and fair treatment among clients;
- the duty to keep communications with clients or prospective clients candid and fulsome, true and complete, and not misleading or misrepresentative;



- the principle that independence and objectivity in the investment decision making process is paramount; and
- the duty to report any violations of the code to the Chief Compliance Officer or General Counsel.

In addition, each employee must comply with applicable federal securities laws and Firm policies, and as an adviser the Firm and its employees are prohibited from the following:

- employing a device, scheme or artifice that would defraud an investment advisory client;
- making an untrue statement of a material fact to a client, or omitting a material fact that would be necessary in order to make the statements not misleading;
- engaging in any act, practice, or course of business which operates or would operate as a fraud or a deceit upon a client;
- engaging in any manipulative practice with respect to a client;
- engaging in any manipulative practice with respect to securities, including price manipulation, acting on, or spreading false rumors; or
- making use of any information that an employee may have become aware of by virtue of his/her relationship with a client organization.

### **Restrictions on Personal Trading**

Subject to the above, employees of Los Angeles Capital and their Related Parties may trade for their own accounts in securities which are recommended to and/or purchased for Los Angeles Capital's clients. The Code of Ethics is designed to avoid actual and potential conflicts of interest and ensure that the personal securities transactions, activities, and interests of the employees and their Related Parties will not interfere with (i) making decisions in the best interest of advisory clients; and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Under the Code of Ethics, certain classes of securities have been designated as reportable, restricted, or exempt transactions, based upon a determination of materiality and potential interference with the best interest of Los Angeles Capital's clients. In addition, the Code of Ethics requires pre-clearance authorization from both the Trading and Compliance departments for certain transactions. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee.

Employee trading is continually monitored under the Code of Ethics, and is designed to reasonably identify and prevent conflicts of interest between Los Angeles Capital and its clients.

#### **Outside Business Interests**

Employees are not permitted to engage in Outside Business Interests without written approval from their supervisor, the CCO, General Counsel, and the CEO. Approval is subject to the implementation of procedures to safeguard against potential conflicts of interest.

#### **Transactions with Affiliates**

The UK Subsidiary is Los Angeles Capital's one affiliate and it provides advisory and marketing services to professional investors in Europe, the U.K., and the Middle East. Any new arrangements between affiliates are reviewed by Compliance, Legal, and Los Angeles Capital's Board of Directors to account for any potential conflicts of interest.

#### **Restrictions on Gifts and Entertainment**

Los Angeles Capital has a policy governing gifts, favors, and entertainment that includes approval or reporting processes for gifts and entertainment provided to or given by Los Angeles Capital employees.

#### **Anti-Bribery and Corruption Policy**

The Firm has a policy prohibiting employees, agents, joint-venture partner, consultant, or distributors/solicitors acting on behalf of the Firm from making or offering any gift, payment, or other inducement for the benefit of any person, including a foreign official, with the intent that the recipient misuse their position to aid Los Angeles Capital in obtaining, retaining, or directing business. The policy sets the process by which our personnel and other applicable parties may provide or accept gifts and entertainment.

#### **Whistleblower Policy**

The Firm has a policy requiring employees to report illegal activity or activities not in compliance with the Firm's formal written policies and procedures, including the Firm's Code of Ethics.

#### **Insider Trading Rules**

From time to time, Los Angeles Capital personnel may come into possession of material, non-public information ("MNPI") which, if disclosed, might affect an investor's decision to buy, sell,

or hold a security. Los Angeles Capital has a policy on insider trading that prohibits employees from trading securities, either personally or on behalf of others, including client accounts, while aware of material non-public information about the issuing company. The policy further prohibits the communication of such MNPI to others in violation of the law. The policy establishes procedures to mitigate the receipt and spread of MNPI and to prevent insider trading that could be attributed to the Firm or its employees. Accordingly, should Los Angeles Capital personnel come into possession of MNPI with respect to an issuer, Los Angeles Capital is prohibited from taking any action, recommending, or transacting in the security on behalf of themselves or others, including client portfolios; report the matter to Compliance or Legal; and refrain from discussing the MNPI with anyone inside or outside the Firm and protect the information from others who may have access to it. Where an employee has come into possession of MNPI about an issuer, there are limited circumstances that would allow the Firm's trading in the issuer to continue. These limited circumstances are permissible due to the Firm's quantitative investment process, and are contingent upon implementation of prescribed procedures to establish information barriers.

All employees receive Code of Ethics and Insider Trading training and must provide written acknowledgement of receipt of such policies and of their intention to comply. Material changes to the Code of Ethics and Insider Trading policies are distributed, as amended, to all employees.

A complete copy of Los Angeles Capital's Code of Ethics is available to clients or prospective clients upon request by contacting the Firm's CCO at 310.479.9947 or via email at [compliance@lacapm.com](mailto:compliance@lacapm.com).

### **Political Contributions**

Los Angeles Capital employees are not permitted to make or solicit political contributions for the purpose of obtaining or retaining business with government entities. Los Angeles Capital employees, on their own behalf and on behalf of their spouses, domestic partners and relatives or significant others sharing the same household, are required to obtain approval from a member of the Compliance department and a lawyer in the Legal department before making a personal political contribution or engaging in any activity to influence any federal, state, local, or U.S. territorial candidate, official, party or organization. It is a violation of Los Angeles Capital's policy for any employee to require another Firm employee to contribute to, support, or oppose any political group or candidate.

**Other Conflicts of Interest**

Los Angeles Capital acts as both the general partner and the investment adviser to the LCAF Partnership, the EMF Partnership, the EMII Partnership, the GEF Partnership, the SCGF Partnership, and the WSCF Partnership. As such, Los Angeles Capital has up to a 1% general partner interest in each Partnership. Los Angeles Capital earns management fees which sometimes include performance fees directly from each Partnership. Therefore, Los Angeles Capital may recommend to clients investment products in which Los Angeles Capital has some financial interest, and during the course of trading may buy or sell for itself securities it also recommends to clients. Los Angeles Capital recommends an investment in the Partnerships only when consistent with its fiduciary duty.

Los Angeles Capital acts as the investment adviser to Los Angeles Capital Global Fund, LACM World Defensive Income Equity Fund, LACM ESG Solutions Fund – U.S., Irish registered UCITS sub-funds of Los Angeles Capital Global Funds plc. In that capacity, Los Angeles Capital earns management fees directly from the funds, and if negotiated with an investor, Los Angeles Capital will receive performance fees from the investor. Los Angeles Capital's UK affiliate recommends an investment in these funds to non-U.S. investors only when consistent with its fiduciary duty.

The Firm has developed trading procedures for its proprietary accounts as outlined in detail in Item 12 below. The Firm does not consider a Private Fund or Collective Investment Trust in which the Firm or its employees in aggregate have an economic interest of less than 2% of the market value to be a proprietary account for trade handling procedures.

In addition, the LCAF Partnership, the EMF Partnership, the EMII Partnership, the GEF Partnership, the SCGF Partnership, and the WSCF Partnership are each audited annually by a PCAOB-registered and-inspected accountant and limited partners receive audited financial statements within 120 days of fiscal year end.

**Item 12 – Brokerage Practices****Broker Selection**

Los Angeles Capital does not have an affiliated broker and seeks to achieve best execution when selecting broker-dealers on behalf of client accounts through its approved brokerage relationships. These orders may be executed through electronic communication networks,

alternative trading systems, or other similar execution systems which are governed by regulatory authorities.

Los Angeles Capital's Trading department maintains the list of approved equity, FX, and prime brokers and negotiates the same standard equity execution commission rate by region across all of its brokers<sup>1</sup>. Brokers may be added after review of the Brokerage Questionnaire and after consent from the Best Execution Committee<sup>2</sup>. Brokers may be suspended at any time by the chief trading officer or one of the chief trading officer's designees, and terminated or removed from the approved brokerage roster with consent from the Best Execution Committee. When considering inclusion on the approved brokerage roster, the following factors are typically considered: the broker's execution capability, financial condition, the broker's responsiveness to the investment adviser, and the range of services offered by the broker. Additionally, one or more of the following factors may be taken into account in selecting a broker for inclusion on the Firm's roster:

- Quality of overall execution services provided by the broker-dealer;
- Promptness and accuracy of electronic execution reports;
- Ability and willingness to promptly resolve and correct errors;
- Ability to commit capital to facilitate principal transactions;
- General reputation, disciplinary history, and stability;
- Specific expertise the broker-dealer may have in executing trades for the particular type of security or basket of securities;
- Technology infrastructure and quality of electronic or algorithmic trading strategies;
- Participation in client directed brokerage programs; or
- Willingness to accrue and pay for approved and qualifying soft dollar products.

These criteria are relevant components of the broker's ability to obtain the most favorable total cost under the particular circumstances at any given time. The overall best execution objective is to complete order lists that represent the best qualitative and quantitative execution for the account without incurring unnecessary trading costs, including both implicit costs (the cost associated with the delay in getting trades to the market) and explicit costs (broker commissions and other fees and taxes).

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<sup>1</sup> Chinese securities trading on the Stock Exchange of Hong Kong may be executed at either the Developed Global rate or the Emerging Markets rate depending on the portfolio's strategy.

<sup>2</sup> Brokerage Questionnaire is completed by equity brokers and FX brokers. Prime broker evaluation is conducted specific to the circumstances under consideration.

The Firm's approved broker list is subject to change as recommended by the chief trading officer or his designee. The Firm targets no more than 20% of aggregate commission dollars (across all accounts managed by the Firm) to any one approved brokerage firm over the calendar year. The Firm reserves the right to re-evaluate this ratio periodically.

### **Prime Brokerage**

Strategies that engage in short trading utilize the services of a prime broker for some or all of the following functions:

- Arranging for the receipt and delivery of securities bought, sold, borrowed, and lent;
- Arranging payment for security purchases and sales;
- Maintaining custody of cash and securities;
- Providing leverage financing; and
- Tendering securities in connection with Los Angeles Capital's directive on tender offers, exchange offers, mergers, and other corporate reorganizations.

For those accounts where the Firm is responsible for selecting the prime broker, the Firm performs various assessments including the following:

- Financial strength and credit quality
- Product offerings that minimize counterparty risk
- Fee structure
- Flexibility in reporting and service capabilities
- Quality of stock loan pool
- Technological capabilities
- Global capacity and reach
- Knowledgeable and responsive support staff, and
- Corporate structure

### **Client Directed Brokerage**

Unless a client's investment management agreement states otherwise, Los Angeles Capital typically has full discretion and authority to determine the securities to be bought or sold for clients, the amount of such securities (subject to client-established guidelines), and the brokerage firms to be used for trade execution. A client may request in writing that Los Angeles Capital direct a portion of the client's commissions in certain strategies to a particular broker in exchange for services received by the client.

Los Angeles Capital's client directed brokerage arrangements are structured to comply with the CFA Institute Soft Dollar Standards regarding client directed brokerage. Accordingly, Los Angeles Capital will not permit commissions from one client account to satisfy the client directed brokerage requirements set by another client account. While Los Angeles Capital has a duty to seek to obtain best execution, client directed brokerage arrangements that require the investment adviser to target a certain percentage of brokerage may affect Los Angeles Capital's ability to seek to obtain best execution. Client directed brokerage arrangements may also result in higher trading costs for the client who has requested such arrangement.

### **Trading Strategy**

Los Angeles Capital uses a variety of different trading strategies and techniques in its efforts to achieve best execution for its clients. Different trading strategies may be utilized depending on market conditions and circumstances.

Depending on market conditions, liquidity considerations, and client activity, various trading strategies are analyzed and employed by the Firm's traders and/or portfolio managers. These strategies include, but are not limited to, varying the frequency and order of account rebalances, varying the grouping of accounts traded on a particular day, varying account turnover, aggregating trade lists, aggregating specific names within trade lists, varying names traded as a block, varying the usage and implementation of the Firm's proprietary trade optimization technology, use of limit orders, and adjusting executing broker trade strategy instructions. The Firm reserves the right to explore trade strategies, methods, and processes to further its best execution mandate for client accounts.

Based on a variety of factors including the strategy, guidelines, and turnover goals Los Angeles Capital determines the trading frequency for each account. Most accounts currently trade at least semi-monthly and others may trade more or less frequently depending on such things as turnover goals, market conditions, and other factors unique to the strategy or markets in which they are invested. While the Firm reserves the right to update its trading strategy, currently, in a typical week, Los Angeles Capital will begin by trading its U.S. strategy accounts followed by its non-U.S. strategy accounts. An account's rebalance cycle is dependent on the account's strategy. U.S. strategy accounts are regularly rotated between traders and generally begin on the same day each week. Non-U.S. strategy account rebalances may be regularly rotated over several days. The Firm's proprietary accounts, which are invested in liquid, benchmark

securities, may be traded in rotation with client accounts or on a particular day of the week depending on liquidity, size, model constraints, and resource constraints.

Los Angeles Capital's proprietary optimization technology for trading client portfolios complements the Firm's approach to stock selection and uses real-time market prices to parse the master ("parent") order lists into a sub-list or "child" order lists, for execution by agency brokers. Accordingly, this strategy capitalizes on both the Firm's understanding of the timing risk associated with each account's trade orders, and agency brokerage strengths in managing market interactions and market microstructure. This technology is currently used in the Americas only. Control over the entire trade process, from order submission through trade execution, is facilitated along with an enhanced ability to monitor intraday brokerage execution.

### **Foreign Exchange**

Los Angeles Capital trades foreign currencies to facilitate settlement of foreign equity trades in markets where it is permitted to do so and where the operational risks of active currency trading are not deemed excessive. These foreign currency transactions are traded for spot or short settlement utilizing, but not limiting itself to, a multi-dealer trading platform that generates competitive broker-dealer quotes and provides foreign currency trading algorithms, all in an effort to achieve favorable FX pricing.

For countries with restricted currency markets or countries where the operational risk of active currency trading are deemed excessive, instructions are in place ("standing instructions") at the client's custodian to execute foreign currency transactions to facilitate equity settlement. Standing instructions are executed by the client's custodian in accordance with its policies and local market practices. With respect to restricted currency markets, the Firm is not able to assist in trying to achieve favorable pricing. In these circumstances, the client has the responsibility for ensuring that it is receiving acceptable execution from its custodian.

Los Angeles Capital engages a third party consulting service to assist in understanding, isolating, and monitoring the indirect or hidden transaction costs of trading foreign currency. Analysis of the trades executed through custodian standing instructions may be limited due to the availability of detailed transaction data from the executing custodian or delays in sourcing the data.



When trading with counterparties other than the client's custodian bank, Los Angeles Capital negotiates an International Foreign Exchange and Currency Option Master Agreement (IFXCO), ISDA Master Agreement, or other similar contractual agreement with the counterparty.

While it is ultimately the client's decision, Los Angeles Capital encourages the use of Continuous Linked Settlement<sup>3</sup> ("CLS") to ensure simultaneous wires and minimize settlement risk.

### **Aggregated Trades**

Los Angeles Capital will generally execute transactions for clients on an aggregate basis when it believes that to do so would allow it to obtain best execution and remain consistent with the account's investment guidelines. As such, Los Angeles Capital, from time to time, evaluates account trade lists for sizeable or potentially illiquid transactions that may be aggregated among several concurrent account rebalances. Clients participating in an aggregated, or block transaction, will receive the same execution price per share, which will reflect an average of prices if a single order is filled in multiple transactions.

While each client account is managed individually, Los Angeles Capital may, at any given time, purchase or sell the same security in a block that is allocated among multiple accounts. There are a number of variables that can influence a decision to aggregate purchases or sales into a block, including but not limited to, order size, liquidity, client trading directives, regulatory limitations, round lot requirements, and cash flows. When there is decision making on whether to include or exclude certain accounts from a block transaction there is always the potential for conflicts of interest. Furthermore, the effect of trade aggregation may work on some occasions to the account's disadvantage. Los Angeles Capital's policies and procedures in allocating trades are structured to treat all clients fairly.

Los Angeles Capital is not required to aggregate any particular trade. For example, an account with directed brokerage may not participate in certain block trades.

Los Angeles Capital allocates trades that are submitted in a block prior to placing the trade with the broker. Clients participating in an aggregated transaction generally will receive the same execution price per share, which will reflect an average of prices if the order is filled in multiple transactions. While participating accounts in an aggregated or block trade typically receive the same execution price per share, in certain markets (e.g. "ID Markets") regulatory restrictions or

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<sup>3</sup> CLS mitigates settlement risk through the provision of its unique payment versus payment settlement service which has direct links to the real time gross settlement (RTGS) systems of the currencies it settles. In addition to mitigating settlement risk, CLS also streamlines and standardizes FX operations thereby reducing costs.

workflow limitations may prohibit brokers from averaging execution prices across accounts participating in the block.

If an aggregated transaction is not completely filled, then the partially completed trade is allocated to the participating accounts on a pro-rata basis subject to certain variations. Differences include regulatory limitations, round lot requirements, exchange specific limitations, market specific restrictions, or other circumstances where it would be impractical to provide a partial allocation. For example, if only a very small portion of the aggregated trade is going to a particular account and the broker is not able to fill the entire block, the broker may exclude the account with the small allocation. While these differences create the potential for conflicts of interest, Los Angeles Capital's directions to brokers are consistent with the Firm's goal to be fundamentally fair on an overall basis with respect to all client accounts. Nevertheless, there can be no assurance that any particular allocation is more or less advantageous to any one account or group of accounts. The process is structured with the goal of no account being advantaged or disadvantaged over time.

### **Investment Decisions**

On occasion, Los Angeles Capital may make investment decisions outside of its account optimization process. Portfolio Managers and the Firm's Investment Committee have developed an approved list of investment decisions permitted to be made by Portfolio Managers and/or Traders (other than executives having a 25% or greater voting interest in the Firm) in conjunction with trading an account. Investment decisions made outside of the optimization output that are NOT outlined on the approved list require the approval of two members of the Investment Committee ("IC") and one Senior Portfolio Manager ("PM"). Block trades are frequently executed to facilitate these investment decisions and are subject to the Firm's Aggregated Trade allocation procedures.

### **Contradictory, Cross-Trading, & Side-by-Side Management**

The Firm manages client accounts that have different investment strategies, objectives, restrictions, constraints, launch dates, and overlapping benchmark constituents. Given these customizations and differences, it is possible that Los Angeles Capital may be purchasing or holding a security for one account and simultaneously selling the same security for another account. However, simultaneously purchasing and selling the same security in the same account ("wash trades") is prohibited. Additionally, it is possible for the Firm to purchase or sell the same security for different accounts during the same trading day but at differing execution

prices. The order of account rebalances may work on some occasions to the account's advantage or disadvantage.

The decision as to which accounts participate in an investment opportunity will take into account, among other things, the Model's outlook on the account's strategy, the account's investment guidelines, and risk metrics. Furthermore, global accounts orders are sent to the market simultaneously subject to prevailing market conditions, client flows, and liquidity. Emerging Markets account orders are aggregated during account rebalances, but the Firm is not required to do so. For accounts traded using the Firm's proprietary trade optimization technology, real-time market prices are the primary order creation determinant in each child order. Therefore, names traded for one account (or group of accounts) may result in different execution prices when compared to the same names traded for another account (or group of accounts).

Los Angeles Capital's general policy is to not permit an off-exchange cross trade between two of its discretionary client accounts and outright prohibits cross-trades for ERISA accounts. The Firm does, however, submit client account orders to one of the anonymous institutional electronic matching protocols to reduce market impact. Los Angeles Capital will also not conduct any principal transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. Los Angeles Capital is not registered as a broker-dealer, nor does it have an affiliated broker-dealer. While the general policy is to not permit cross trades between clients, should the Firm determine that it is in the best interest for both clients to conduct a cross trade between client accounts, the Firm will implement compliance policies and procedures that define internal approval procedures as well as client consent and notification procedures.

The Firm has developed trading procedures for its proprietary accounts as outlined in the Trading Strategy section of Item 12. The Firm does not consider a Private Fund or Collective Investment Trust in which the Firm or its employees in aggregate have an investment of less than 2% of the market value to be a proprietary account for trade handling purposes.

### **Initial Public Offerings**

In general, Los Angeles Capital will not participate in an Initial Public Offering Allocation ("IPO") due to the absence of historical company data. However, should a client benchmark

immediately include a security undergoing an IPO as a constituent holding, and if Los Angeles Capital deems it necessary to purchase the issue to maintain client-directed account risk and/or guideline compliance, then Los Angeles Capital will purchase the issue in the secondary market subject to the Firm's trading strategy.

### **Soft Dollars**

Los Angeles Capital's soft dollar arrangements are structured to comply with the CFA Institute Soft Dollar Standards and the safe harbor provisions under Section 28(e) of the Securities and Exchange Act of 1934 ("Soft Dollar Guidance"). Los Angeles Capital has soft dollar arrangements in place with one or more brokerage firms to purchase broker and/or third-party research and other soft dollar eligible products and services. Where permissible, Los Angeles Capital directs client brokerage commissions to participating, non-affiliated broker-dealers to accrue these soft dollar credits.

Los Angeles Capital accrues soft dollar credits on all eligible transactions in all accruing accounts with participating brokerage firms on its approved brokerage roster and pays the same gross commission rate with each broker executing in a particular market (e.g., U.S./Canada, Developed Global, and Emerging)<sup>4</sup>. This reduces the need to direct client transactions to any particular broker-dealer to pay for a particular soft dollar product or service. The soft dollar accrual percentage is the same for all accruing accounts regardless of the particular broker-dealer used. The execution rates are the same across all accounts regardless of whether they are accruing accounts or non-accruing accounts.

Soft dollar credits are not accrued on principal trades, trades a client directs to a particular broker in exchange for services received by the client ("client directed brokerage"), or on error-correcting trades. While the vast majority of trades are executed at the Firm's agreed standard rates with broker-dealers, on occasion, the Firm places trades at higher or potentially lower commission rates. To the extent any trade is aggregated across several clients, such clients will pay the same higher or lower execution rates and, if soft dollars are permitted, the accruing accounts will pay the same soft dollar rates. Paying such non-standard rates could allow the Firm to more timely fill an order; not subject an order to market volatility; not subject an order to concerns about future liquidity; or take advantage of discounts on lower priced stocks.

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<sup>4</sup> Chinese securities trading on the Stock Exchange of Hong Kong may be executed at either the Developed Global rate or the Emerging Markets rate depending on the portfolio's strategy.

Furthermore, Los Angeles Capital may use broker or third-party research products or services to benefit clients other than those whose trades generated the soft dollar commissions.

These soft dollar arrangements for the accruing accounts present the potential for a conflict of interest in that Los Angeles Capital could be perceived to have an incentive to trade the accruing accounts in order to generate soft dollars that could be used to pay for research products and/or services. However, Los Angeles Capital believes that by limiting the soft dollar budget in accordance with the SEC's Soft Dollar Guidance, requiring each broker to apply uniform soft dollar accrual rates across the accruing accounts, and having Los Angeles Capital pay for research to approximate the contribution that would have been made by the non-accruing accounts had such non-accruing accounts permitted soft dollar accruals, the Firm has in part mitigated such conflicts. Further, the amount of turnover generally is directed by the Firm's investment process and/or client guidelines and not by the level of soft dollar commissions generated by trading an account.

In deciding whether to purchase research and brokerage products or services under Section 28(e), Los Angeles Capital will first determine if the product or service provides lawful and appropriate assistance in the performance of the Firm's investment decision making responsibilities; secondly, determine if it qualifies as eligible research or brokerage; and lastly, determine in good faith, that the amount of the client commissions paid is reasonable in relation to the value of the products or services received. If a product or service is deemed to be "mixed-use," a conflict of interest arises, since such research product or service partially benefits Los Angeles Capital. Los Angeles Capital will make a reasonable and justifiable allocation of the cost of the product or service according to its use and document the decision process that determines the eligible/non-eligible allocation. The portion of the product or service that provides assistance to Los Angeles Capital in the investment decision making process will be paid for with soft dollars, while the portion that provides administrative or other non-research or brokerage related assistance will be paid for by Los Angeles Capital with cash.

Los Angeles Capital may benefit from both broker and third-party research and targets no more than a 25% allocation of its total annual commission budget towards the purchase of soft dollar eligible products. Allowable research and/or brokerage products or services generally fall into one of the following categories: investment research data, portfolio management and analytics, and trading decision support and research. Investment research data includes such items as: company-specific financial statement history, financial analyst sentiment, and market data received in electronic form. Portfolio management and analytics includes account optimization

and risk minimization tools. Trading decision support and research includes market analysis and data, pre- and post-trade analytics, and allowable order management system modules. These arrangements may change or vary over time.

Additional information in accordance with the CFA Institute Soft Dollar Standards regarding Los Angeles Capital's trading and soft dollar policy is available upon request.

### **Item 13 – Review of Accounts**

The primary departments that support Los Angeles Capital in its review of client accounts are: Portfolio Management, Operations, and Compliance.

The Portfolio Management team (the “PM Team”) touches all aspects of the investment process and is responsible for the ongoing monitoring of client accounts so that the Firm’s factor and alpha forecasts are reflected appropriately and that a client’s stated investment guidelines and the Firm’s optimization parameters are being met. The PM Team reports its findings to the Portfolio Review Committee (“PRC”). The PRC is comprised of members of the Investment Committee, Portfolio Management, and Research. The PRC conducts monthly reviews of portfolios performance and risk profiles as well as the Model’s outlook and portfolio characteristics.

Members of the Portfolio Management and Operations teams regularly monitor and analyze the cash balances in client accounts to confirm sufficient funds are available in local or base currencies and the Operations team is responsible for daily and monthly account reconciliations with the client’s custodian bank. Discrepancies are researched.

Compliance provides an additional level of portfolio review to monitor account adherence to regulatory and client specific investment guidelines through the use of its compliance monitoring system. The system generates daily exception reports comparing portfolios on both a pre- and post-trade basis against client and regulatory guidelines.

At a minimum, on a quarterly basis, written reports which list and describe account holdings, trading activity, risk characteristics, and account performance are delivered to clients. At the client's request, Los Angeles Capital will also prepare periodic reports of a similar nature.

Investors in Private Funds and the LACM UCITS will receive written partnership or shareholder statements directly from the fund administrator.

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

Los Angeles Capital provides education conferences or events for clients, prospects, and consultants. Los Angeles Capital pays the associated food, beverage, and facilities related expenses for such events. Los Angeles Capital also pays fees to attend, speak at, or assist in sponsoring conferences or events organized by others. These sponsorship activities may include direct payments to vendors and/or reimbursement of expenses incurred by the organizers of such events.

The Firm does receive indirect compensation in the form of research or other products and services from broker dealers through its soft dollar arrangements. The Firm's soft dollar practices are described in Item 12. Additionally, with respect to the Firm's management of LACM UCITS funds, the Firm may, at its discretion, rebate part or all of the management fees charged to the UCITS funds to remunerate certain financial intermediaries of such UCITS funds.

Los Angeles Capital does purchase data and analytic systems for use in its Research or Portfolio Management departments. In certain circumstances, these data and/or analytic system vendors may also be in the business of investment consulting, and may serve as an investment consultant to a current or prospective client. Any consulting referrals are unrelated to the Firm's decision to purchase products or services from such a provider.

Los Angeles Capital contracts with an unaffiliated, third-party vendor for its Order Management System. In exchange for the Firm establishing a minimum number of broker-dealer fixed connections, Los Angeles Capital receives credits against amounts otherwise owed to the vendor for order management services. These broker-dealer fixed connections are directly paid for by the broker-dealer, thus providing the Firm with a form of indirect compensation. These fixed connections do not require the Firm to trade with any one particular broker-dealer and in no case are the vendor's credits to Los Angeles Capital dependent on the Firm's trading in a particular client account. The Firm's selection of broker-dealers to execute client trades is based on considerations relating to best execution and is not impacted by these arrangements.

Brokers on the Firm's approved broker roster, Virtu ITG, Inc. and Instinet, Inc., provide other services to the Firm, aside from brokerage services, free of charge. These services include such products and services as execution management systems, cost curves data, transaction cost analytics, pre-trade liquidity, macro and company specific research, market structure reports and commentary, program trading conferences, and have customizations to their technologies to facilitate the Firm's trading processes.



The UK Subsidiary enters into distribution arrangements with respect to the LACM UCITS.

Los Angeles Capital has an Advisory Board comprised of seasoned investment professionals who collaborate and provide advice regarding the strategic direction of the Firm. One of the Firm's Advisory Board members is a key decision maker for an investor in one of the Firm's Partnerships. The Advisory Board Member does not receive compensation for services provided to the Firm, however, Los Angeles Capital reimburses the advisory board member for all reasonable out-of-pocket expenses actually incurred in the performance of Advisory Board services.

### **Item 15 – Custody**

Due to certain arrangements, Los Angeles Capital may be deemed to have custody of a client account within the meaning of Rule 206(4)-2 under the Advisers Act because the Firm may have access to or authority over client funds and securities for purposes other than issuing trading instructions. Separate account clients generally will receive a periodic client account statement from their qualified custodian (typically on a monthly or quarterly basis) indicating the amounts of any funds or securities in the client account as of the end of the statement period and any transactions in the account during the statement period. Los Angeles Capital urges clients to carefully review such statements and compare such official custodial records to account statements provided by Los Angeles Capital. Los Angeles Capital statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Because Los Angeles Capital serves as a general partner or managing member of certain Private Funds, the Firm is deemed to have custody of the Private Funds within the meaning of Rule 206(4)-2 under the Advisers Act. For each of these Funds, Los Angeles Capital provides each investor in the Private Fund with audited financial statements that comply with U.S. generally accepted accounting practices within 120 days following the funds' fiscal year end.

Investors in the LACM UCITS will receive audited financial statements within 120 days following the fund's fiscal year end.



### **Item 16 – Investment Discretion**

Los Angeles Capital usually receives full discretionary authority from the client to select the identity and amount of securities to be bought or sold at the outset of an advisory relationship. This authority is established in each client's Investment Management Agreement, Limited Partnership Agreement, or other legal documentation governing the account. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. Except as otherwise required by law or express agreement between Los Angeles Capital and a client, Los Angeles Capital will not be liable for any action or instruction of the client or the client's custodian.

When selecting securities and determining amounts, Los Angeles Capital observes the investment policies, limitations, and restrictions of the clients for which it advises. For registered investment companies, Los Angeles Capital's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Clients with brokerage restrictions can and will be accommodated. Investment guidelines and restrictions must be provided to Los Angeles Capital in writing.

### **Item 17 – Voting Client Securities**

Proxy voting authority is determined in each client's Investment Management Agreement, Limited Partnership Agreement, Prospectus, or other legal documentation governing the account. Voting ERISA client proxies is a fiduciary act of plan asset management that must be performed by the adviser, unless the voting right is retained by a named fiduciary of the plan.

Los Angeles Capital has hired an unaffiliated, outside, proxy voting service provider (the "Outside Proxy Provider") to act as an independent voting agent. The Outside Proxy Provider provides objective proxy analysis, voting recommendations, recordkeeping, and manages other operational matters of the proxy voting process. The Firm's Proxy Committee (the "Committee") is charged with oversight of Los Angeles Capital's proxy voting policies and procedures and for approving and adopting Outside Proxy Provider's guidelines.

Los Angeles Capital has adopted the Outside Proxy Provider's U.S. and International Proxy Paper Guidelines for those accounts where proxy voting authority has been granted to the Firm. Although the Firm has adopted established guidelines and has a pre-determined voting

policy, Los Angeles Capital retains the right to ultimately cast each vote on a case-by-case basis, taking into consideration the contractual obligations under the advisory or sub-advisory agreement and all other relevant facts and circumstances at the time of the vote.

A client may issue directives regarding how particular proxy issues are to be voted for the client's account holdings. Los Angeles Capital requires that the advisory or sub-advisory contract provides for such direction, including instructions as to how those votes will be managed, particularly where they differ from Los Angeles Capital's policies. While Los Angeles Capital will accept direction from clients on specific proxy issues for their own account, Los Angeles Capital reserves the right to maintain its standard position on all other client accounts. Los Angeles Capital may abstain from voting a client proxy if it concludes that the value of the account holding is indeterminable or insignificant, or if the costs of voting such proxy are unjustifiable.

Los Angeles Capital does not generally dialogue with management with respect to pending proxy voting issues. For those securities that are out on loan in connection with a securities lending program, the Firm abstains from voting proxies, except where it deems a holding materially significant and it is operationally feasible to recall.

Los Angeles Capital abstains from voting proxies in a country that participates in share blocking because it is disruptive to the management of the account. The Firm is unable to vote proxies where a required Power of Attorney is not on file. The Firm will abstain from voting shares of securities where in the Firm's judgment the unjustifiable costs or disadvantages of voting the proxy would exceed the anticipated benefit of voting (e.g., certain non-U.S. securities). Los Angeles Capital may be unable to vote proxies in instances where multiple global custodian accounts roll up into one omnibus sub-custodian account. In the specific markets where this may occur and ballots are voted differently for the underlying accounts, the omnibus vote is considered split and is rejected.

When Los Angeles Capital is given proxy voting authority, Los Angeles Capital will direct the voting to comply with the client's proxy voting guidelines and, if client proxy voting guidelines are not provided, the Firm will vote in accordance with institutional proxy policies of the Firm's Outside Proxy Provider. The Outside Proxy Provider has reported to the Firm that it does not enter into business relationships that may conflict with its mission to serve institutional participants in the capital markets with objective advice and services; and that it does not offer consulting services to public corporations or directors, or to proponents of shareholder proposals or dissident shareholders in control contests. If the Outside Proxy Provider identifies

a conflict of interest between it and a publicly-held company, the Outside Proxy Provider will disclose the relationship on the relevant research report. In the event of an unforeseen conflict involving the Outside Proxy Provider, requires specialized treatment, alternate measures may be taken, up to and including having the Outside Proxy Provider refrain from writing a proxy paper report on the company. In this scenario the Firm may be required to vote the proxy.

If during the proxy voting process the Firm's Proxy Committee identifies a material conflict of interest between Los Angeles Capital or an affiliated person of the Firm and that of one of its clients or prospects, the client will be notified. If no directive is issued by the client, the Proxy Committee will vote in such a way that, in the Firm's opinion, fairly addresses the conflict in the best interest of the client.

In the event that Los Angeles Capital has not been granted authority to vote client securities, clients must make arrangements to receive their proxies or other solicitations directly from their custodian, transfer agent, or other third-party fiduciary that has been granted the authority to vote proxies. In this situation, clients should direct questions relating to a particular solicitation to their voting agent.

A complete version of Los Angeles Capital's Proxy Policy is available to clients and prospective clients upon request. Clients may direct a particular proxy vote or request at any time a copy of the voting records for their accounts through a formal request to the Firm's Chief Portfolio Operations Officer at 310.479.9878 or via email at [operations@lacapm.com](mailto:operations@lacapm.com).

### **Class Actions and Proofs of Claim**

From time to time, securities that the Firm's clients have owned are the subject of class action lawsuits. Generally, holders of securities within a given class period are entitled to participate in the recovery or settlement in a class action lawsuit by filing a proof of claim. All members of a class are typically bound by a court-approved settlement or judgment in a class action unless they have filed with the court or claims administrator a timely notice choosing to opt-out of the settlement. Los Angeles Capital views the decision to file a proof of claim in class actions to be performed by the custodian for the client. In addition, the decision to elect to opt out of a class settlement is a decision to be made by the client.

Custodians typically receive notices of rights to participate in, or opt out of class action settlements. Los Angeles Capital sometimes receives such notices addressed to clients and the Firm has adopted procedures to notify clients and/or their custodian in such instances. The

Firm's actions and procedures with respect to class actions depend on the role we have with a client and the client's custodian.

#### **Item 18 – Financial Information**

As a registered investment adviser, Los Angeles Capital is required to provide certain financial information or disclosures about its' financial condition. Los Angeles Capital believes that it has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.