



ADV Part 2A

January 20, 2020

## Item 1. Cover Page

This brochure (Form ADV Part 2A) provides information about the qualifications and business practices of LFA - Lugano Financial Advisors SA ("LFA"). LFA is a registered investment advisor ("RIA") with the United States Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

If you have any questions about the contents of this brochure, please contact us by telephone at +41 (0) 91 921 37 52 or by e-mail at [info@lfa.ch](mailto:info@lfa.ch).

The information in this brochure has not been approved or verified by the SEC or by any state securities authority. Additional information about LFA is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). There is no specific level of skill or training required to "register" as an RIA with the SEC.

This brochure does not include services and fees offered by LFA's affiliates.

## Item 2. Material Changes

No material changes have been made to the brochure since the last version of 2019.

Our brochure can also be ordered on our website at [lfa.ch](http://lfa.ch)

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## Item 4. Advisory Business

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### *Firm Description*

LFA - Lugano Financial Advisors SA ("LFA" or "the Firm" or "we"), a Swiss corporation based in Lugano, Switzerland and through its branch in Zurich, Switzerland, provides investment advice to clients resident in the United States ("US"). LFA also serves US taxpayers or dual citizens living outside the US and in certain cases may work with clients who are not resident in the US or US taxpayers. LFA commenced operations in 2010 in Lugano and opened the branch in Zurich in 2012.

### *Principal Owners*

LFG Holding SA wholly owns LFA. The principal owners of LFG Holding SA are Siro Spellini, Francesco Bernasconi and Michele Vanossi.

### *Services*

LFA provides wealth management solutions to high net worth and ultra-high net worth clients, and it offers both discretionary asset management and non-discretionary investment advisory services. Each client's assets are managed in a separate account (an "account") maintained at a third-party financial institution.

LFA's client portfolios are diversified across a variety of asset classes, including cash, US dollar and non-US dollar currencies, defensive strategies in marketable securities, growth strategies in marketable securities, and, in certain cases, private investments. Accounts may include, without limitation: equity securities, fixed income securities, limited partnership interests, mutual funds, exchange traded funds, hedge funds, options, structured product investments and other alternative investments consistent with a client's suitability, his or her overall investment strategy, and his or her risk tolerance. Generally, client investments are concentrated in non-US securities consistent with most clients' objective of obtaining jurisdictional diversification from the US.

Whilst generally LFA makes investments with a longer time horizon, LFA may recommend changes to allocations in an attempt to take advantage of conditions in the current economic environment

whilst being sensitive to transaction costs and taxes, as applicable. Such allocation changes may involve short-term underweight or overweight positions to various asset classes designed to capitalize on current economic conditions over the short-term.

LFA's advice is limited to the types of securities and transactions as set forth in Item 8.

### *Discretionary Asset Management*

LFA offers discretionary asset management services whereby LFA has the authority to supervise and direct the investments of and for each client's account without prior consultation with the client. LFA determines the securities that are bought and sold for the client's account and the total amount of the purchases and sales. LFA's authority may be subject to conditions imposed by individual clients as set forth and agreed upon in the investment management agreement entered into between LFA and the client. For example, a client may restrict or prohibit transactions in certain types of securities.

LFA seeks to obtain a rate of return consistent with each client's objectives, risk tolerance, future liquidity requirements and potential tax and legal restrictions. Generally, LFA manages each client's portfolio in line with model portfolios constructed by the investment committee of the firm. However, these model portfolios serve only as a general guide and not every client's portfolio will replicate the model portfolio as a result in differences in client risk tolerance, tax ramification, client specifications, liquidity and timing.

### *Non-discretionary Investment Advisory*

For clients who desire a non-discretionary investment advisory service, LFA offers investment advice similar to its discretionary asset management service in a non-discretionary mandate whereby prior consultation and client approval is required before LFA purchases or sells any security. LFA works with its non-discretionary clients to define their investment objectives and consults with each client on a regular basis with

investment suggestions in line with the defined objectives.

If explicitly required by a non-discretionary client, LFA may implement investment ideas which do not pertain to LFA's investment universe. LFA will disclose to the client if an investment idea is not part of LFA's investment universe.

### *Global Reporting Services*

LFA offers a global reporting service for clients with financial accounts at more than one financial institution (including accounts that LFA does not manage or advise upon) for purposes of evaluating global asset exposure. LFA will: (i) examine bank statements received by LFA at the direction of the client; (ii) prepare a consolidated statement of assets on a monthly, quarterly and/or annual basis; and (iii) monitor and report on the adherence to the investment guidelines established by the client.

### *Tax Reporting Services*

LFA provides annual tax reporting statements aligned with the American reporting guidelines and standards, based on a fixed fee.

LFA does not render any Tax advice.

### *Wrap Fee Programs*

LFA does not participate in wrap fee programs.

### *Assets under Management*

LFA managed approximately USD 369,765,621 on a discretionary basis and USD 457,369,282 on a non-discretionary basis for a total of **USD 827,134,903** as of December 31, 2019.

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## Item 5. Fees and Compensation

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LFA's fees generally are charged as a percentage of the market value of assets under management ("AUM") or assets under advisement ("AUA"). The asset management fee is charged quarterly in arrears. AUM or AUA is measured with reference to the average of the closing balances for the last

business day of each month within the respective calendar quarter. The fee generally is charged in the reference currency of the account, and the following fee schedule generally is applicable for discretionary accounts:

AUM (CHF or equivalent)	Fee
1,000,000 – 5,000,000	1.00% p.a.
5,000,001 – 10,000,000	0.80% p.a.
10,000,001 -15,000,000	0.60% p.a.
From 15,000,001	Negotiable

and for non-discretionary investment advisory accounts:

AUA (CHF or equivalent)	Fee
1,000,000 – 5,000,000	1.20% p.a.
5,000,001 – 10,000,000	1.00% p.a.
10,000,001 -15,000,000	0.80% p.a.
From 15,000,001	Negotiable

There is a minimum annual fee of CHF 5,000 or equivalent in foreign currency, for discretionary accounts and non-discretionary Investment advisory accounts.

Compensation is not payable in advance. Accounts initiated or terminated during a calendar quarter will be charged a pro-rated fee. Upon termination of any relationship, accrued, unpaid fees will be due and payable.

LFA may waive, discount and/or negotiate fees at its discretion. LFA may also charge additional fees for services outside the scope of the services described above. Any additional fees are disclosed and agreed to by the client.

LFA generally relies on the custodian bank to value the assets in each client's account. LFA typically will arrange with the custodian for the direct payment of its fees from the client's account.

In addition to the fees charged directly to each client's account described above, LFA receives indirect compensation from time-to-time in the form of placement fees, discounts, finder's fees or distribution fees from third parties based on the investments LFA makes or recommends. For example, certain mutual or private funds will pay a fee to LFA, a so-called 12b-1 fee, for investing client

portfolios in such fund. A client must acknowledge and agree in the investment advisory agreement with LFA that such indirect compensation belongs to LFA. The investment advisory agreement also provides each client with a list of mutual funds that have agreed to provide LFA with indirect compensation. Each Client has the exclusive right to instruct LFA not to make any mutual fund investments on its behalf.

The receipt and potential to receive indirect compensation, including 12b-1 fees, creates a material conflict of interest between LFA and its clients. LFA has an incentive to recommend investment products based on the indirect compensation LFA will receive rather than based on each client's needs. Thus, LFA is not always impartial with respect to its investment recommendations. Further, other than the disclosure herein regarding conflicts of interest, and similar disclosure found within the investment advisory agreement, LFA generally does not inform its clients of the receipt of indirect compensation. LFA seeks to minimize this conflict of interest by limiting the amount of indirect compensation it will receive on an annual basis to no more than 1.0% of the AUM or AUA of each client's portfolio. To the extent that LFA receives indirect compensation in excess of this cap, LFA will credit the respective client's account with such additional amount. Further, LFA agrees to disclose the indirect compensation it receives in relation to any client's account as soon as is reasonably practical (in certain cases, it is difficult to apportion indirect compensation paid without reference to a specific account to a particular client). LFA also agrees to promptly disclose any additional information requested from the Clients regarding LFA's mutual fund investment and selection process. Clients generally have the option to purchase investment products that LFA recommends through agents or brokers whereby LFA would not receive indirect compensation.

LFA does not manage or advice accounts based on commissions or subscription fees.

#### *Other Fees and Expenses you may incur*

Fees charged by LFA do not include custodian fees, fees for trade settlement, brokerage commissions, or any other fee imposed by the custodian bank or

the broker. The fees also do not include management or other fees charged by funds or other products that client accounts may be invested in from time-to-time.

#### *Fees for LFA's Global Reporting Services*

The fee for global reporting services generally is 0.25% p.a. calculated on the global net asset value at the end of every calendar year of all the accounts subject to global reporting (including any account over which LFA serves as the advisor). The payment of the annual fee is due by the end of January of each subsequent year or within 30 days from a mid-year termination of global reporting services, in which case the fee will be pro-rated for the partial year.

#### *Fees for Tax Reporting and Other Services*

LFA may charge fees for tax reporting and other services it provides in addition to the asset management fees. Such other fees are agreed to with the client in writing and may range from CHF 200 to CHF 500 per hour or are a fixed amount on an annual basis, ranging from CHF 200 to CHF 1,000.

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### Item 6. Performance-Based Fees & Side-by-Side Management

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#### *Performance-Based Fees*

LFA may enter into performance-based fee arrangements with qualified clients holding at least USD 10,000,000 AUM/AUA with LFA and subject to individualized agreements with each client. To the extent LFA enters into performance or incentive fee arrangements, it will do so in accordance with Section 205(a)(1) of the Advisers Act and Rule 205-3. Only clients who meet the following requirements may opt for the performance-based fee scheme: (i) clients with at least USD 1,000,000 under management with LFA; (ii) clients with more than USD 2,000,000 of net worth, excluding the value of the primary residence and certain debt secured by the property; or (iii) clients who are qualified purchasers under Section 2(a)(51) of the Investment Advisors Act of 1940, as amended (which generally is defined to include only individuals with more than USD 5,000,000 in

investments or an entity such as corporations, trusts, partnerships, or institutional investor that owns and invests on a discretionary basis at least USD 25,000,000 in investments).

LFA potentially can receive higher fees with a performance-based compensation structure than from those accounts that pay the asset-based fee schedule described above. To minimize this conflict, LFA generally will enter into a performance fee arrangement upon the request of a client or in the case of specific investment performance objectives.

The performance fee is calculated every year on the basis of the performance of the preceding year.

#### *Side-by-Side Management*

LFA manages many client accounts and as a result of differences in the fees charged on various accounts, LFA has conflicts related to such side-by-side management of different accounts. For example, LFA advisors may manage more than one account according to the same or a substantially similar investment strategy and yet have a different fee schedule applicable to such account as a result of the respective clients' AUM with LFA.

Side-by-side management of different types of accounts may raise conflicts of interest when two or more accounts invest in the same securities or pursue a similar, although not identical, strategy. These potential conflicts include the favorable or preferential treatment of an account or a group of accounts, conflicts related to the allocation of investment opportunities, particularly with respect to securities that have limited availability, such as initial public offerings, and transactions in one account that closely follow related transactions in a different account. In addition, the results of the investment activities for one account may differ significantly from the results achieved for other accounts, particularly if LFA individually tailors clients' accounts.

LFA has policies and procedures in place aimed to ensure that all client accounts are treated fairly and equitably. LFA strives to equitably allocate investment opportunities among relevant accounts over time. In addition, investment

decisions for each account are made with specific reference to the individual needs and objectives of the account. Accordingly, LFA may give advice or exercise investment responsibility or take other actions for some clients (including related persons) that may differ from the advice given, or the timing and nature of actions taken, for other clients. Investment results for different accounts, including accounts that are generally managed in a similar style, also may differ as a result of these considerations. Some clients may not participate at all in some investments in which other clients participate, or may participate to a different degree or at a different time.

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#### Item 7. Types of Clients

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LFA offers investment management services to (ultra) high net worth individuals and their foundations and trusts, estates, holding companies or other estate planning structures. In addition, LFA offers its services to independent asset managers as well as public and private banks. Generally, LFA prefers its client relationships to have a minimum of CHF 1,000,000 of AUM or AUA. LFA may accept accounts below the minimum requirements, or may retain accounts that have dropped below the minimum requirement due to market fluctuation or investment performance. Accounts that have family, corporate, or other relationships may be aggregated for purposes of the minimum account size.

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#### Item 8. Methods of Analysis, Investment Strategies & Risk of Loss

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##### *Methods of Analysis*

LFA utilizes a disciplined investment process supported by quantitative tools for stock selection, portfolio construction, and portfolio risk control as well as fundamental research for its investment selection. LFA employs a research-based bond selection process utilizing fundamental credit research performed internally with a macroeconomic overlay and supported by third-party independent research providers.



### *Investment Strategies*

The investment strategies used to implement investment advice given to clients by LFA include long and short-term securities purchases, trading, margin transactions and option writing, including covered or uncovered options.

LFA offers the following investment strategies as a foundation of a client tailor-made portfolio. Each client's portfolio will differ based on a client's unique situation and objectives within the parameters of the client selected investment strategy.

Investment Strategy	Asset Classes	Max. in %
Low	Money Market	100
	Fixed Income	100
	Other Currencies	20
Moderate	Money Market	100
	Fixed Income	90
	Equity	30
	Metals, Commodities, Altern. Investments, etc.,	30
	Other Currencies	30
Medium	Money Market	100
	Fixed Income	70
	Equity	60
	Metals, Commodities, Altern. Investments etc.,	40
	Other Currencies	50
High	Money Market	100
	Fixed Income	50
	Equity	100
	Metals, Commodities, Altern. Investments etc.,	50
	Other Currencies	80

### *Types of Securities*

LFA offers investment management and advisory services on the following types of securities and transactions: exchange-listed securities, securities traded over-the-counter, securities issued by non-US issuers, corporate debt securities (and other commercial paper), certificates of deposit, investment company securities such as mutual funds, US or foreign government securities, exchange traded funds, foreign exchange

transactions, certain derivatives or structured products, and in certain cases private fund investments. Some of these securities, particularly those issued outside of the US, may not be registered with the SEC. LFA is able to invest clients on a discretionary basis in securities offered outside the US to non-US investors in reliance on Regulation S under the Securities Act of 1933.

Investments in private funds or structured products may be limited to "accredited investors" or "qualified purchasers," and may require investors to lock-up their assets for a period of time. These investments may have limited or no liquidity and they may involve different risks than investing in registered funds and other publicly offered and traded securities. In the context of a discretionary mandate, LFA may invest client accounts into such securities without client consent.

LFA will rely on the accuracy of a client's representations in making corresponding representations regarding the investment restrictions on behalf of a client's account in connection with certain derivative, private fund or other similar investments with qualification restrictions. LFA requires notification by the client if the client's representations become inaccurate.

### *Material Investment Risks*

Clients should bear in mind that investing in securities involves a risk of loss. Clients should be prepared to bear the risk of losing their investment in securities. Past performance is not an indication as to future results.

Among other risks, all investments made by LFA will be subject to market risk, liquidity risk, and interest rate risk, and may be subject to credit and counterparty risk, risk in fluctuations of commodity pricing, risk of loss due to political and economic developments in foreign markets, and risks involving movements in the currency markets.

**Market Risk:** Market risk refers to the risk of loss arising from general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws and national and

international political circumstances. Each account is subject to market risk, which will affect volatility of securities prices and liquidity. Such volatility or illiquidity could impair profitability or result in losses.

*Risk Related to Equity Investments:* Investments in equity securities generally involve a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. The value of specific equity investments generally correlates to the fundamentals of each particular security, but prices of equity investments may raise or fall regardless of fundamentals due to movements in securities markets.

*Risks Related to Fixed Income Investments:* Investments in fixed income securities (*i.e.*, bonds) represent numerous risks such as credit, interest rate, reinvestment, and prepayment risk, all of which affect the value of the security and volatility of such value. In general, bonds with longer maturities are more sensitive to price changes. Additionally, the prices of high-yield, fixed-income securities fluctuate more than high-quality debt issues. Prices are especially sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High-yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. Developments in the credit market may have a substantial impact on the companies LFA may invest in and will affect the success of such investments. In the event of a default, the investment may suffer a partial or total loss.

*Risks Related to Investments in Funds:* For purposes of this discussion, the term "Fund" includes, but is not limited to, a US or non-US unit investment trusts, open-end and closed-end mutual funds, hedge funds, private equity funds, venture capital funds, real estate investment trusts, exchange traded funds ("ETFs") and any other private alternative or investment fund. Investments in funds carry risks associated with

the particular fund. Each fund and the respective manager will charge their own management and other fees, which will result in a client bearing an additional level of fees and expenses. US mutual funds generally must distribute all gains to investors, including investors who may not have an economic gain from investing in the fund, which can lead to negative tax effects on investors, particularly non-US persons. Investments in certain non-US funds by US persons result in US tax and reporting obligations and failing to comply with such requirements can result in significant penalties. Funds generally have unique risks of loss as described in their offering documents. Funds can make use of leverage to enhance returns, which raise the risk of default, interest rate risk, and increase volatility. Certain funds invest in derivatives, which can raise specific counter-party risks. Funds that are not traded can have illiquidity and valuation risks resulting in the inability to redeem or sell the fund on demand. See the discussion below relating to risks in structured products and derivatives for more information on the risks of investing in funds.

*Risks related to Structured Products & Derivatives:* LFA may invest in structured products or derivatives or invest in funds that hold investments in structured products or derivatives. In addition to the risks that apply to all investments in securities, investing and engaging in derivative instruments and transactions may involve different types of risk and possibly greater levels of risk. These risks include, but are not limited to the following:

*Leverage.* Certain investment instruments such as derivatives may use leverage to achieve returns. The use of leverage may have the effect of disproportionately increasing an account's exposure to the market for the securities or other assets underlying the derivative position and the sensitivity of an account's portfolio to changes in market prices for those assets. Leverage will tend to magnify both the positive impact of successful investment decisions and the negative impact of unsuccessful investment decisions by LFA on an account's performance.

*Counterparty Credit Risk:* When a derivative is purchased, a client's account will be subject to the ability and willingness of the other party to the



contract (a “counterparty”) to perform its obligations under the contract. Although exchange traded futures and options contracts are generally backed by a guarantee from a clearing corporation, an account could lose the benefit of a contract in the unlikely event that the clearing corporation becomes insolvent. A counterparty’s obligations under a forward contract, over-the-counter option, swap or other over-the-counter derivative contract are not so guaranteed. If the counterparty to an over-the-counter contract fails to perform its obligations, an account may lose the benefit of the contract and may have difficulty reclaiming any collateral that an account may have deposited with the counterparty.

*Lack of Correlation.* The market value of a derivative position may correlate imperfectly with the market price of the asset underlying the derivative position. To the extent that a derivative position is being used to hedge against changes in the value of assets in an account, a lack of price correlation between the derivative position and the hedged asset may result in an account’s assets being incompletely hedged or not completely offsetting price changes in the derivative position.

*Illiquidity.* Over-the-counter derivative contracts are usually subject to restrictions on transfer, and there is generally no liquid market for these contracts. Although it is often possible to negotiate the termination of an over-the-counter contract or enter into an offsetting contract, a counterparty may be unable or unwilling to terminate a contract with an account, especially during times of market instability or disruption. The markets for many exchange traded futures, options and other instruments are quite liquid during normal market conditions, but this liquidity may disappear during times of market instability or disruption.

*Less Accurate Valuation.* The absence of a liquid market for over-the-counter derivatives increases the likelihood that LFA will not be able to correctly value these investments.

*Risks Relating to Foreign Currency Exposure:* Accounts managed by LFA are routinely subject to foreign exchange risks and bear a potential risk of loss arising from fluctuations in value between the US Dollar and such other currencies. LFA primarily

invests in securities and other investments that are denominated in currencies other than US Dollars. Some client’s accounts hold significant foreign cash positions. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. Often clients are seeking this foreign currency exposure. Thus, LFA generally does not seek to hedge the foreign currency exposure. Even to the extent that LFA does seek to hedge the foreign currency exposure, such hedging strategies may not necessarily be available or effective.

*Non-US Investments:* Investments in non-US securities expose the client’s portfolio to risks that in addition to those risks associated with investments in US securities. Such risks include, among other things, trade balances and imbalances, economic policies of various foreign governments, exchange control regulations, withholding taxes, potential for nationalization of assets or industries, and the political instability of foreign nations.

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#### Item 9. Disciplinary Information

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LFA has not been involved in any legal or disciplinary events.

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

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LFA management personnel are neither registered, nor have an application pending to register as broker-dealers, registered representatives of a broker-dealer, future commission merchants, commodity pool operators, commodity trading advisors, or associated persons of the foregoing entities.

LFA is a member of Swiss Association of Asset Managers VSV-ASG (SAAM), which is a Swiss self-regulatory organization recognized by the Swiss Financial Market Supervisory Authority (FINMA) as a professional association empowered to issue rules of conduct in the context of asset management.

LFA is a subsidiary of LFG Holding SA, which also owns LFG Investment Consulting, SA, an investment adviser serving non-US clients, and LFG

Family Office SA, which provides coordination and reporting services to clients.

LFA shares physical space and supervised personnel with its affiliates. LFG Holding SA has established a joint market meeting for the group, consisting of employees of LFA as well as its affiliates, whereby the group employees discuss the general market developments taking place in the global economy.

In addition to this group market meeting, LFA holds its own independent investment committee meetings, separate and apart from its affiliates, whereby LFA makes independent decisions on asset allocations for its U.S. clients. LFA's portfolio management team also creates an independent preferred equity list, which supports its recommendations to its U.S. clients.

LFA also conducts its own portfolio reviews.

LFA does not believe any of its related companies or the joint investment process presents a conflict of interest for the clients of LFA.

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

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LFA seeks to minimize conflicts of interest and resolve those conflicts of interests in favor of its clients to the extent it determines reasonable and necessary in accordance with its Code of Ethics, however, LFA may receive indirect compensation from time-to-time as a result of its investment advisory activities, and LFA recognizes that this presents a conflict of interest as described elsewhere in this brochure.

#### *Code of Ethics*

LFA treats all clients equitably and has a duty to act in its clients' best interests. Except as otherwise described in this brochure, the interests of clients will be placed above LFA's interests in case of any conflict. LFA has adopted a Code of Ethics (the "code") and attendant policies and procedures governing personal securities transactions by LFA

and its personnel. The code also provides guidance and instruction to LFA and its personnel on their ethical obligations in fulfilling its duties of loyalty, fairness and good faith towards the clients.

The overriding principle of LFA's Code of Ethics is that all employees of LFA owe a fiduciary duty to clients for whom LFA acts as investment advisor or sub-advisor. Accordingly, employees of LFA are responsible for conducting personal trading activities in a manner that does not interfere with a client's portfolio transactions or take improper advantage of a relationship with any client.

The code contains provisions designed to try to: (i) prevent, among other things, improper trading by LFA's employees; (ii) identify conflicts of interest; and (iii) provide a means to resolve any actual or potential conflicts of interest in favor of the clients. The code attempts to accomplish these objectives by, among other things: (i) requiring pre-clearance of specific trades, which includes documenting any exceptions to such pre-clearance requirement; (ii) restricting trading in certain securities that may cause a conflict of interest, as well as (iii) periodic reporting regarding transactions and holdings of employees.

The code contains sections including, but not limited to, the following key areas: (i) restrictions on personal investing activities; (ii) gifts and business entertainment; and (iii) outside business activities.

The code also provides for LFA's execution of supervisory policies and procedures, and the review and enforcement processes of such policies and procedures. LFA has designated a Chief Compliance Officer responsible for maintaining, reviewing and enforcing LFA's Code of Ethics and corresponding policies and procedures.

The fundamental position of LFA is that, in effecting personal securities transactions, personnel of LFA must place at all times the interests of clients ahead of their own pecuniary interests. All personal securities transactions by these persons must be conducted in accordance with the Code of Ethics and in a manner to avoid any actual or potential conflict of interest or any abuse of any person's position of trust and responsibility. Further, these persons should not

take inappropriate advantage of their positions with or on behalf of a client.

If a person subject to the Code of Ethics fails to comply with the code, such person may be subject to sanctions, which may include warnings, disgorgement of profits, restrictions on future personal trading, and, in the most severe cases, the possibility of dismissal.

LFA will provide a copy of the Code of Ethics to any client or prospective client upon request.

#### *Participation or Interest in Client Transactions*

Although LFA does not hold proprietary positions, LFA's related persons may own, buy, or sell for themselves the same securities that they or LFA have recommended to clients. Thus, from time-to-time, a client account may purchase or hold a security in which a related person of LFA has financial interest or an ownership position, or a related person may purchase a security that is held in a client account.

Also from time-to-time, LFA employees or related persons may invest alongside the firm's clients, both to align the interest of firm and personnel and firm clients and as an expression of confidence in our portfolio management efforts. In order to ensure that LFA personnel never trade ahead of their clients, the firm requires all trading in specific positions for officer and employee accounts to come after the analogous trades are executed for client accounts. Firm personnel communicate freely and frequently among themselves in order to ensure the application of these fundamental restrictions.

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#### Item 12. Brokerage Practices

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LFA's clients primarily open accounts at custodial banks in Switzerland. Each client may select the bank for his or her account and accounts can be booked with US custodians as well. LFA does not select custodial banks on a client's behalf.

Each custodian bank has its own policies and procedures relating to brokerage. Generally, the

custodial banks require LFA to route securities orders through the trading desk of the bank thus not permitting LFA to select the broker-dealer. As LFA will not have discretion in selecting the broker-dealer, the client should be aware of the incumbent risks associated with such arrangement.

#### *Brokers Selected by the Custodian Bank*

Brokerage for transactions involving assets held at Swiss banks generally must be made through the broker-dealer specified by the custodian bank. In most cases, Swiss custodian banks act as a broker-dealer and/or maintain relationships with designated broker-dealers (including potentially an affiliate of the custodian bank). If required by the custodian bank, LFA effectuates security transactions through the custodian bank or the broker or dealer designated by the custodian bank selected by the client. In such cases, LFA cannot guarantee that the client will receive best execution or the best commissions because LFA does not control these factors. Clients should be aware of the factors outlined below under the heading *Directed Brokerage* as these factors also apply with respect to assets maintained at Swiss banks. Clients also should be aware of the potential that the broker-dealer used for transactions may not be a registered broker-dealer under the Exchange Act.

#### *Client Directed Brokerage*

A client may direct LFA to use a particular broker or dealer who has an existing relationship with, or provides custodial or other services, to a client. LFA requires any directed brokerage instructions to be in writing unless such arrangement is inferred in the context of the custodian's brokerage limitations. Generally, all Swiss custodian banks require use of their broker, and as a result, LFA treats such arrangements as client-directed brokerage because the client selects the custodian bank.

Before choosing to enter into a directed brokerage arrangement, clients should be aware of the following disadvantages:

- LFA will not be able to negotiate commission rates with the designated broker because LFA will not have the negotiating leverage that results from the ability to trade away from a designated broker.
- Directed brokerage may cost clients more money. Directed brokerage clients may pay higher commission rates than those paid by other clients, may receive less favorable trade executions and may not obtain best execution on their transactions.
- Directed brokerage accounts will not be able to participate in aggregated or block transactions with other clients. This will preclude directed brokerage accounts from obtaining the volume discounts or more favorable terms that might be available from aggregated transactions.
- If LFA is placing orders in the same security for both directed brokerage clients and clients that use other brokers, LFA usually place orders for directed brokerage clients after it has placed orders for other clients.

### *Block Trades*

LFA generally will combine orders into block trades when purchasing the same security for multiple client accounts. Such aggregated orders ("block trades") will be pre-allocated amongst the participating client accounts. When selecting the participating accounts a variety of factors such as suitability, investment objectives and strategy, risk tolerance and/or the ability to invest additional funds will be taken into consideration. In determining the portion for each participating account further factors such as account's size, diversification, asset allocation and position weightings as well as any other appropriate factors might be of relevance. Participating accounts in a block trade placed with the same broker or the same custodian bank generally will receive an average price. Transaction costs will be shared on a proportionate basis and as determined in the agreement with the custodian. This can either be a sharing on a pro rata basis or based on the implemented degression model, whereas costs decrease in relation to the purchased quantity and include the application of a minimum rate, when shared costs are below a defined amount. Partial fills of transactions will be allocated on a pro rata share basis.

Because LFA's clients maintain accounts at different custodian banks and because many of these custodian banks mandate the use of a specific broker (see description above), often LFA places more than one block trade for the same security with more than one broker. LFA transmits such block trades to more than one broker in a random pattern (*i.e.*, LFA does not favor one custodian bank or broker over another with respect to the order in which block trade orders are sent). The average price realized on a securities order placed with different brokers will vary broker to broker, and clients generally will receive different average prices and transaction costs for the same security order depending upon the custodian bank and the respective broker used in the block trade. Also note, since most Swiss custodian banks warehouse securities orders until filled, there may be delays in settlement between client accounts depending on the practice of the respective custodian bank and/or broker.

### *Decision Making Process; Balancing the Interests of Multiple Client Accounts*

In making the decision as to which securities are to be purchased or sold and the amounts thereof, LFA is guided by the general guidelines set up at the inception of the adviser-client relationship in cooperation with the client and a periodic review of the asset allocation. These general guidelines cover such matters as the relative proportion of debt and equity securities to be held in the portfolio, the degree of risk that the client wishes to assume and the types and amounts of securities to be held in the portfolio. LFA's authority may be further limited by specific instructions from the client, which may restrict or prohibit transactions in certain securities.

LFA may manage numerous accounts with similar or identical investment objectives or may manage accounts with different objectives that may trade in the same securities. Despite such similarities, portfolio decisions relating to client investments and the performance resulting from such decisions may differ from client to client. LFA will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible clients, particularly if different clients have selected different

investment profiles, have materially different amounts of capital under management with LFA or different amounts of investable cash available. In certain instances such as purchases of less liquid publicly traded securities or oversubscribed public offerings, it may not be possible or feasible to allocate a transaction pro rata to all eligible clients, especially if clients have materially different sized portfolios. Therefore, not all clients will necessarily participate in the same investment opportunities or participate on the same basis.

### *Use of Soft Dollars*

LFA may maintain soft dollar arrangements, and to the extent it does it will only do so in accordance with the conditions of the safe harbor provided by Section 28(e) of the Exchange Act. Section 28(e) is a “safe harbor” that permits an investment manager to use brokerage commissions or “soft dollars” to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process.

Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants’ advice on portfolio strategy; data services (including services providing market data, company financial data, certain valuation and pricing data and economic data); and advice from brokers on order execution.

Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an investment adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post

trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

Currently LFA has not entered in any soft dollar arrangement with any broker.

### *Trade Errors*

Although LFA’s goal is to execute trades seamlessly in the manner intended by the client and consistent with its investment decisions, LFA recognizes that errors can occur for a variety of reasons. LFA’s policy in dealing with such errors is to:

- Identify any errors in a timely manner.
- Correct all errors so that any affected account is placed in the same position it would have been in had the error not occurred.
- Incur all costs associated with correcting an error (or to pass the costs on to the broker, depending on which party is at fault). Costs from corrective actions are not to be passed on to a client.
- Evaluate how the error occurred and assess if any changes in any processes are warranted or if any continuing education is required.

The consequences and the required corrective measures may be different depending upon the nature of the error or the account affected.

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### Item 13. Review of Accounts

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**Discretionary accounts:** All discretionary accounts are reviewed at least quarterly in an effort to ensure that they remain aligned with the client’s investment plan and are positioned appropriately given current market conditions as part of LFA’s general investment process.

**Non-discretionary accounts:** Non-discretionary accounts are periodically reviewed to make sure investments are consistent with client’s risk profile and objectives.

**Annual review:** The relationship managers are responsible for the periodic review (at least annually) of client accounts. The annual review covers all key aspects of the client relationship,

including, among other things, any changes in the client's personal and financial situation, risk profile and the suitability of the chosen investment program.

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#### Item 14. Client Referrals and Other Compensation

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LFA may pay fees for client referrals. Such arrangements comply with the conditions and requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940.

LFA may receive remuneration from third parties in connection with its investment advisory services. Such remuneration can include referral fees, marketing fees, discounts, finder's fees, service fees, including shareholder service fees, 12b-1 fees or bonus commissions paid by mutual funds, privately offered funds, insurance products, variable annuities or other investment products paid to LFA for recommending an investment, for investing client funds in such product or for marketing assistance or the performance of certain administrative tasks associated with making an investment. Please refer to the discussion of the conflicts of interest presented by LFA's remuneration in Item 5.

LFA's employees or associated persons may be invited to attend seminars and meetings with the costs associated with such meetings borne by a sponsoring brokerage firm or other party extending the invitation.

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#### Item 15. Custody

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LFA typically is given authority to have its fees directly deducted from a client's account. Consequently, LFA is deemed to have custody of such funds. In such cases, LFA has established procedures to ensure the client's account is held at a qualified custodian in a separate account for each client. The client establishes the bank account directly and therefore is aware of the qualified custodian's name, address and the manner in which investments are maintained. Account statements are prepared by the custodian bank. Generally, these statements include a listing of all valuations and all transactions occurring during the period.

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#### Item 16. Investment Discretion

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LFA accepts discretionary authority to manage client accounts as described above. Clients rarely restrict the authority by which LFA may act; however, each client has the opportunity to communicate any form of limitation in writing. In the context of a discretionary mandate, LFA makes investment decisions without consulting the client by utilizing its limited power of attorney for the management of the account maintained at the custodian bank selected by the client. In the context of a non-discretionary mandate, LFA's investment discretion is limited to an advisory role and LFA does not implement investment decisions without the approval of the client. LFA never has discretionary authority to select a qualified custodian for a client's account.

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#### Item 17. Voting Client Securities

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##### *Proxy Voting*

LFA generally does not have the authority to vote client proxies. Clients make arrangements directly with their custodian to vote proxies for securities or where proxy or other solicitation materials have to be sent to. If LFA inadvertently receives any proxy materials on behalf of a client, LFA will promptly forward such materials to the client.

LFA will exercise investment authority for certain corporate actions (such as, but not limited to tenders, rights offerings, splits etc.) in connection with discretionary accounts. For advisory clients, corporate actions are discussed with them prior to the event taking place.

Clients who have questions about proxies may contact LFA for further information.

##### *Class Actions*

LFA does not direct client participation in class action lawsuits. LFA will determine whether to return any documentation inadvertently received regarding clients' participation in class actions to

the sender, or to forward such information to the appropriate clients.

LFA will not advise or act on behalf of clients in any legal proceeding, including bankruptcies or securities shareholder class action litigation involving securities held or previously held in client accounts. Accordingly, LFA is not responsible for responding to, or forwarding to clients, any class action settlement offers relating to securities currently or previously held in the client account.

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Item 18. Financial Information

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LFA has not been the subject of a bankruptcy petition at any time. As of the date of this brochure we do not believe it is reasonably likely that any future liability will impact our ability to meet our contractual commitments to our clients.