

# Part 2A of Form ADV: Firm Brochure

## ITEM 1: COVER PAGE

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**This brochure provides information about the qualifications and business practices of Legion Partners Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at (424) 253-1774 and/or [info@legionpartners.com](mailto:info@legionpartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Legion Partners Asset Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2: MATERIAL CHANGES**

This updated Form ADV Part 2A contains the following changes from the prior version:

Item 4E – December 31, 2019 Legion Partners' Assets Under Management (AUM) were approximately \$393,300,000.

### **ITEM 3: TABLE OF CONTENTS**

<b><u>Item</u></b>	<b><u>Page</u></b>
1: Cover Page	1
2: Material Changes	2
3: Table of Contents	3
4: Advisory Business	5
5: Fees and Compensation	6
6: Performance-Based Fees and Co-Investment Management	8
7: Types of Clients	8
8: Methods of Analysis, Investment Strategies and Risk of Loss	9
9: Disciplinary Information	11
10: Other Financial Industry Activities and Affiliations	11
11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	12
12: Brokerage Practices	16
13: Review of Accounts	18
14: Client Referrals and Other Compensation	19
15: Custody	20
16: Investment Discretion	20

17: Voting Client Securities	20
18: Financial Information	22
19: Requirements for State-Registered Advisers	22

## **ITEM 4: ADVISORY BUSINESS**

### **A. Description and Principal Owners**

Legion Partners Asset Management, LLC, a Delaware limited liability company ("Legion Partners"), is a registered investment adviser.

Legion Partners was formed on April 11, 2012 in Delaware.

Legion Partners is 100% owned by Legion Partners Holdings, LLC, which is 100% owned by Raymond T. White (33 1/3 %), Christopher Kiper (33 1/3%) and Bradley Vizi (33 1/3%).

### **B. Advisory Services Offered**

Legion Partners provides investment management services through pooled investment vehicles, separately managed accounts (generally side-by-side investments or co-investments) as well as pension consulting services to clients ("Clients").

Legion Partners specializes in fundamental research, long-term oriented investing and building a productive relationship with portfolio companies. This involves long-term holdings and actively engaging the management and boards of public companies in order to help achieve superior long-term performance. Legion Partners' investment strategy is described in greater detail in Item 8.

Legion Partners also provides pension consulting services. It seeks to develop long-term relationships with major institutional investors and pension plans, among others, which may include a variety of services ranging from discretionary asset management to non-discretionary investment advisory and consulting services. Legion Partners' pension consulting services are intended to provide flexible resources for institutional investors and pension plans that may supplement their internal capabilities related to key corporate governance issues, research and due diligence activities, and active investments based on long-term company engagements.

Legion Partners specializes in conducting deep fundamental analysis and professional long-term engagements, which results in the ability to focus resources on selected issues with the potential to have the most significant impact on the rights and economics of long-term oriented institutions. This element of Legion Partners' overall strategy is intended to focus on complex aspects of governance and/or specific situations that provide the opportunity to enhance institutional investors' ability to execute their investment, to improve their governance programs and to meet their long-term obligations to their constituents. Legion Partners may also collaborate with institutional investors and others on key policy issues. These may include, for example, research related to the effectiveness of mergers and

acquisitions activity and how institutions should evaluate their positions in this process (transparency, valuation methodology and metrics, alignment of interests and long-term measures of success), accounting policies or practices, capital efficiency, alignment between share owners and companies, company performance, regulatory concerns and/or issues related to individual companies. This work may be used to support a particular investment thesis and/or to propose specific reforms.

**C. Limited Tailoring of Advisory and Pension Consulting Services**

Legion Partners gives priority to its fund Clients, which may limit the securities (due to the nature of side-by-side investments or co-investments) in which it invests or manages for separately managed account Clients or for which it provides pension consulting services while utilizing the same investment strategy as for its fund Clients.

**D. Non-participation in Wrap Fee Programs**

Legion Partners does not participate in wrap fee programs.

**E. Assets Under Management**

As of December 31, 2019, Legion Partners' Assets Under Management (AUM) were \$393,300,000.

**ITEM 5: FEES AND COMPENSATION**

**A. Advisory Fees**

**1. Types of Advisory Fees**

The terms of each Client's agreement with Legion Partners ("Client Agreement") will govern the advisory fees they pay Legion Partners. Legion Partners typically charges Clients a combination of Management Fees and performance-based fees, although it may also charge Clients a performance-based fee only as described more fully below.

**a. Management Fees**

Legion Partners typically charges Clients an annual "Management Fee" based upon a percentage of net asset value determined by the terms of the individual client agreement.

## **b. Performance-Based (or Incentive) Fees**

Legion Partners, LLC (the “General Partner”) receives a performance based fee annually for its funds and/or upon the sale of all of the Client’s assets under management (for its co-investments). This performance based fee is a percentage of the realized and unrealized investment profits (typically calculated as gross gains net of any management fees, expenses for which the Client is responsible under the applicable advisory agreement and any other reasonable expenses incurred by the Client related to the investment) based on either an absolute return or hurdle-based methodology. CalSTRS, as Legion Partners’ seed investor, is entitled to receive a share of the performance based fees.

In the absolute return model, if the absolute return is less than an agreed upon percentage (the “absolute return floor”), no performance-based fee is realized; if the absolute return is equal to or greater than the absolute return floor, the performance-based fee to which Legion Partners is entitled is an agreed upon percent of the gain that is equal to or higher than the absolute return floor.

In the hurdle based model, no performance based fee is realized until the Client has received an amount equal to 100% return of its capital contributions and a preferred return of an agreed-upon percentage (the “hurdle”). Once the hurdle is met, an agreed-upon percentage is provided to the Client and another agreed-upon percentage is provided to Legion Partners, LLC.

## **2. Negotiability**

Advisory fees may be negotiable in certain circumstances, including, but not limited to, Client portfolios that contain a substantial amount of assets.

### **A. Calculating and Billing Advisory Fees**

Management Fees, if applicable, are typically calculated and become payable monthly or quarterly in advance. All calculations are subject to pro-rata adjustments to reflect contributions to or withdrawals from a Client’s account or termination of services during a month.

Performance-based fees may be charged on realized and/or unrealized net profits and may be net of expenses depending upon the terms of the Client Agreement.

Legion Partners bills clients for all Management Fees incurred. Clients can elect to pay Management Fees directly or authorize their deduction from Client assets. Performance-based fees will be deducted prior to distribution of any funds to the Client.

### **B. Other Fees and Expenses**

Client Agreements typically require clients to reimburse Legion Partners for certain

expenses Legion Partners incurs in connection with performing its investment management services. These expenses are set out in the applicable offering documents and include, for example: brokerage and other transaction costs in the Client's account, all custodial and similar charges and third-party charges (e.g., legal and accounting fees, proxy solicitors, marketing, etc.). Legion Partners' brokerage practices are described in Item 12 below.

#### **C. Payment of Management Fees**

Management Fees are typically payable in advance.

Legion Partners may require Clients to provide at least forty five (45) days advance notice in order to terminate an agreement. If this occurs, Legion Partners will adjust its Management Fees accordingly on a pro rata basis. Such notice will be specific to the individual agreement between Legion Partners and particular Client.

#### **D. Non-receipt of Brokerage Compensation**

Legion Partners and its employees do not receive brokerage compensation for selling investments to Clients.

### **ITEM 6: PERFORMANCE-BASED FEES AND CO-INVESTMENT MANAGEMENT**

Legion Partners charges all clients a performance-based fee on pooled investment vehicles, separately managed accounts and co-investments. This is discussed in greater detail in Item 5 above.

### **ITEM 7: TYPES OF CLIENTS**

Legion Partners intends to provide investment management services to the following types of Clients:

Public funds

Corporate pension funds

High net worth individuals

Family foundations

Taxable corporate funds

Such Clients may elect to open a separately managed account with Legion Partners and receive these services directly, or invest in a limited partnership, of which Legion Partners or a subsidiary serves as general partner. Clients must invest at least \$1.0 million with Legion Partners for separately managed accounts.



## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Investment Strategy and Method of Analysis**

#### **1. Method of Analysis**

Legion Partners uses deep fundamental analysis to identify companies it believes may be significantly undervalued relative to intrinsic value and future opportunity.

Legion Partners uses proprietary research and analysis to determine its investment decisions and the engagement process for each portfolio company.

#### **2. Investment Strategy**

Legion Partners specializes in fundamental research, long-term oriented investing and building a productive relationship with portfolio companies. This involves long-term holdings and actively engaging the management and boards of public companies in order to help achieve superior long-term performance.

Legion Partners engages a company by focusing the attention of its shareholders, management, and board of directors on factors that Legion Partners believes are contributing to the company's underperformance. Legion Partners periodically meets with members of the board of directors and/or management as well as representatives of portfolio companies. The intended result of this engagement is to increase the company's stock price to align with Legion Partners' view of its true long-term value.

In executing its investment strategy, among other techniques, Legion Partners may submit shareholder proposals under Rule 14a-8 of the Securities Exchange Act of 1934 as amended (the "Exchange Act") or pursuant to procedures set forth by the companies, and may seek board representation through negotiation or use of the Exchange Act's proxy rules. Additionally, Legion Partners may participate in proxy contests, tender offers and restructurings of companies in or out of formal bankruptcy proceedings.

Legion Partners implements its investment strategy with a primary focus on small and mid-cap companies, typically with a market cap under \$5 billion. The portfolio typically consists of five to fifteen investments in equity securities of North American companies at any given time. Legion Partners has no fixed guidelines for diversification of investments among companies or industries. However, Legion Partners does not invest more than twenty-five percent (25%) of a Client's assets at the time of investment in the securities of a single company or group of affiliated companies except in situations where the client may also have a Co-Investment in such securities in which event such amount shall not apply.

Legion Partners typically purchases securities for a holding period to exceed one year (with a target holding period of two to three years). Nevertheless, Legion Partners may sell securities after holding such securities for less than a year or the target period if, for example: the risk associated with a particular company is altered to a degree that outweighs the expected return; its stock price aligns with Legion Partners' view of its value; if Legion Partners needs to liquidate certain holdings in order to fund new acquisitions; or for other reasons.

### **3. Risk Associated with Investing in Securities**

Investing in securities involves a risk of loss that clients should be prepared to bear. Legion Partners makes no guarantee or representation that its investment strategy will be successful. Past performance of Legion Partners and/or its clients' portfolios is not a guarantee of future results.

### **B. Material Risks Associated with Investment Strategy**

#### **1. Market Risks**

All investments are subject to market risks including but not limited to: investment-specific price fluctuations, economic, political, interest rate and other risks, which could result in adverse market price changes; and the difficulty of accurately predicting price movements in particular securities or the market as a whole. Due to the nature of its investment strategy, Legion Partners may have only limited ability to vary a client's investment portfolio in response to changing economic, financial and investment conditions.

#### **2. Engagement Process**

There is no guarantee that Legion Partners' engagement of a portfolio company will be successful or that even if it is successful, this will result in an increase in the share price of that company. Further, such engagement may cause a company's management to take defensive or other measures that erode, rather than increase, shareholder value.

#### **3. Concentration**

Client investments may be heavily concentrated, at any time, in only a limited number of companies or industries. Poor performance by a single investment could substantially and adversely affect the overall performance of a client's portfolio.

#### **4. Long-Term Nature of Investments**

Legion Partners' investment strategy may require clients to hold certain investments for a significant period of time in order to realize a return of or on invested capital. Because of the nature of Legion Partners' investments and

investment strategy, there can be no assurance that Legion Partners will be able to realize returns on such investments in a timely manner or at all. Further, even if Legion Partners' engagement of a company is ultimately successful, there may be periods of time during the holding period when economic, financial or investment conditions are unfavorable or when the company's performance has not yet improved. If a client causes Legion Partners to liquidate such investments prematurely by withdrawing assets from their Account or reducing their Capital Commitment, it could cause those clients and other non-withdrawing clients to realize losses or lesser profits on the sale of such securities.

## **5. Potential Illiquidity**

Legion Partners' engagement of a company may require Legion Partners to agree to certain lock-up or blackout periods on the sale of that company's securities. Alternatively, Legion Partners might make private investments in public companies. These factors could prevent Legion Partners from being able to sell securities at desired times or prices or at all (in the case of such private investments) and could cause such client to realize losses or lesser profits on any sale of such securities.

### **C. Material Risks Associated with Equity Securities**

Each investment in an equity security of a portfolio company is subject to the risks associated with the businesses in which the portfolio company is engaged, including market conditions, changes in regulatory requirements, general economic downturns, (in some cases) changes in commodity prices and other factors. Such conditions may result in a loss of value beyond the control of Legion Partners notwithstanding its engagement of the portfolio company.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events to report.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. No Broker-Dealer Affiliations**

Neither Legion Partners nor any management person is registered or in the process of registering as a broker-dealer or a broker-dealer representative.

### **B. No Futures and Commodities Affiliations**

Neither Legion Partners nor any management person is registered or in the process of registering as a future commission merchant, commodity pool operator, commodity trading advisor or an associated person thereof.

### **C. Arrangements with “Related Persons”**

Clients may elect to invest in a limited partnership, of which Legion Partners or a subsidiary or affiliated entity serves as general partner. For the purpose of this Brochure, the SEC defines these limited partnerships as Legion Partners’ “Related Persons.”

### **D. No Recommendation or Selection of Other Investment Advisers**

Legion Partners does not recommend or select other investment advisers for clients.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics**

Legion Partners places great significance on its Code of Ethics (the “Code”) and adherence to the policies and procedures contained within the Code. The Code requires all personnel to:

- Act with competence, diligence, respect, and in a professional and ethical manner;
- Place the integrity of the investment profession and the interests of clients above their own personal interests;
- Use reasonable care and exercise independent professional judgment;
- Promote the integrity of, and uphold the rules governing, capital markets;
- and
- Maintain and improve professional competence.

The Code also incorporates Legion Partners’ Personal Trading Policy, which is summarized as follows:

Employees are prohibited from purchasing/selling publicly traded or privately held equity and debt securities, including options or warrants related to any company (each, a “Security” or “Securities,” as the context may require) except in narrow circumstances. Employees may purchase or sell mutual funds or other closed end funds, Unit Investment Trusts, municipal securities, ETFs, government securities, and money market funds without prior approval. Publicly traded securities may be purchased or sold on behalf of an employee where such employee [and/or their spouses and dependents] does not have investment discretion over such decisions.

Employees [and/or their spouses and dependents] may purchase or sell Securities other than those described in the immediately preceding paragraph only in the circumstances and under the conditions set forth below:

A. Market Capitalization under \$5 billion: Legion Partners Personal Trading Policy prohibits employees from purchasing or selling any publicly traded or privately held security of companies with a market capitalization under \$5 billion (See Item 11E. below);

B. Market Capitalization equal to or above \$5 billion and not on Restricted List: Legion Partners Personal Trading Policy permits employees to purchase or sell publicly traded or privately held security of companies that are not currently on the Legion Partners restricted list maintained by the Chief Compliance Officer with a market capitalization over \$5 billion under the following circumstances and constraints:

- a. The trade is pre-cleared by a Managing Director or the Chief Compliance Officer, and the CCO is copied on all requests for pre-clearance;
- b. In requesting pre-clearance, the employee specifies the company, number of shares, and a defined time period in which they will execute the trade; provides the current market capitalization of the company as of the date of the request or an immediately preceding date for which the information is available; and the employee provides that they are not aware of any conflict or potential conflict with a company that falls in Legion Partners' investable universe; and
- c. The employee acknowledges that Legion Partners retains the authority to further restrict trading in any publicly traded or private security of companies that have been previously authorized, and may require the employee to take action to eliminate a potential conflict of interest if one arises in the future that relates to an existing holding of the employee, and such action may include restricting trading, providing disclosure regarding the employees' holding, or requiring the employee to exit the position.

C. Investment in Legion Partners' funds or alternative vehicles: Employees may invest in one or more of Legion Partners' funds or in a parallel vehicle as a limited partner, which investments will be made pro-rata with all other fund investors. Such investments will be subject to a three-year lock up period, but will not be subject to management fees or incentive allocations.

D. Employee Co-investment Program: Employees may invest directly in selected Legion Partners' projects on a co-investment basis under the following conditions:

- The project is specified as a co-investment by the Legion Partners Investment Committee, and the Investment Committee has determined that the co-investment project is also eligible for employees (such determination will be made solely by the Legion Partners Investment Committee, and may be based on the characteristics of the co-investment, the capacity for additional investment beyond the capacity of the Fund, and whether the Committee deems employee co-investment to be aligned with the interests of the Fund and Legion Partners' clients).

- The co-investment is executed through a designated account managed by Legion Partners for which the trading is conducted on a pro-rata basis with Legion Partners' client(s) that are also participating in the co-investment project.
- Employees that leave Legion Partners while holding a co-investment position may be permitted to sell their co-investment holding(s), and any such disposition will be disclosed to clients. Legion Partners will retain the right to require employees that depart to hold co-investment positions up to the duration of the project if it is determined by the Legion Partners that selling the co-investment may be harmful to Legion Partners' clients or the investment. Legion Partners may permit employees to transfer ownership of existing holdings in co-investment projects, however, Legion Partners retains the authority to approve such transactions

E. New Employees: In cases where new employees have existing holdings of public or private securities:

- Employees must report any existing holdings in public or private securities upon commencement of employment and quarterly thereafter in accordance with the Code of Ethics.
- Employees may elect to hold any existing positions with a market capitalization below \$5 billion while employed at Legion Partners, but must make an election in writing within 30 days of their start date.
- Any existing holdings with a market capitalization below \$5 billion will be subject to trading restrictions if the employee elects to hold the securities while employed at Legion Partners. If an employee elects to hold such an existing position while employed at Legion Partners, then at a later date wishes to sell the position, the employee must obtain pre-clearance under this policy, which will be granted at the sole discretion of Legion Partners Chief Compliance Officer.
- Any existing holdings with a market capitalization above \$5 billion will be subject to pre-clearance requirements as described above, and may at some date be subject to further trading restrictions at the discretion of Legion Partners.
- New employees will be permitted to dispose of any current holdings they wish to sell within the first thirty days of employment without obtaining pre-clearance.
- New employees may be permitted to redeploy capital in personal accounts in public or private securities with a market capitalization below \$5 billion (that may otherwise be restricted) during the first thirty days of employment, but must obtain pre-clearance from the Chief Compliance Officer on a case-by-case basis.

No Access person shall acquire any beneficial ownership in any securities in an Initial Public Offering for his or her account, as defined herein without the prior written approval of the Chief Compliance Officer who has been provided with full details of the proposed transaction (including written certification that the investment opportunity did not arise by virtue of the access person's activities on behalf of a client) and, if approved, will be subject to continuous monitoring for possible future conflicts.

No Access person shall acquire beneficial ownership of any securities in a limited offering or private placement without the prior written approval of the Chief

Compliance Officer who has been provided with full details of the proposed transaction (including written certification that the investment opportunity did not arise by virtue of the access person's activities on behalf of a client) and, if approved, will be subject to continuous monitoring for possible future conflicts.

No Access person shall recommend any securities transactions for a client without having disclosed his or her interest, if any, in such securities or the issuer thereof, including without limitation:

- Any direct or indirect beneficial ownership of any securities of such issuer;
- Any contemplated transaction by such person in such securities;
- Any position with such issuer or its affiliates; and
- Any present or proposed business relationship between such issuer or its affiliates and such person or any party in which such person has a significant interest.

Violations of the above policies are taken very seriously and, in some circumstances, may lead to termination of employment.

A complete copy of the Code of Ethics and Personal Trading Policy is available to Clients and/or prospective Clients upon written request.

#### **B. Securities in which Legion Partners has a Material Financial Interest**

Legion Partners will not recommend or invest client assets in securities in which Legion Partners has a material financial interest.

However, if a Legion Partners' principal or employee is appointed director of a portfolio company as part of Legion Partners' engagement of that company, that person may have a financial interest in that company's securities when Legion Partners makes subsequent purchases or sales of those securities. This is because that person may receive compensation for serving as a director in the form of fees, stock or stock options. This financial interest could give rise to a number of conflicts of interest, which Legion Partners addresses as follows:

- Legion Partners only seeks board representation if it determines in its sole discretion that it is necessary to increase shareholder value;
- Client Agreements may specify that Legion Partners' Management Fee, if any, is to be reduced by the client's pro-rata share of the value of the compensation received by such persons;
- All subsequent client investment decisions relating to such securities are made in accordance with Legion Partners' investment strategy; and
- Any stock received as compensation for serving as director will be subject to the restrictions on personal trading described above and below.

#### **C. Legion Partners as a Shareholder of Record and Restrictions against Personal Trading**

In order to implement its investment strategy Legion Partners may need to be

registered as a shareholder of record in certain portfolio companies. To achieve this Legion Partners may need to hold a nominal amount (typically 1,000 shares or less) of such companies' shares in a proprietary account. Legion Partners believes that due to the nominal amount of shares involved, this does not present a conflict of interest. Typically, trades made in this account are made apart from the corresponding Client transactions.

As discussed above, personnel are not permitted to purchase individual equity securities in which the fund has ownership interest or is acquiring such securities or such securities are under consideration as a fund investment and must follow Legion Partners' Pre-clearance Procedures in order to sell such securities within their portfolio. Such pre-clearance will not be granted if the proposed sale will take place around the same time as a client transaction in the same security and Legion Partners determines that the sale will negatively affect the price of the client transaction or be executed at a more favorable price as a consequence of the client transaction.

#### **D. Timing of Shareholder of Record Transactions**

As stated above, if Legion Partners buys a nominal number (typically 1,000 shares or less) shareholder of record shares, these transactions take place apart from the corresponding client transactions. If Legion Partners sells a nominal number (typically 1,000 shares or less) shareholder of record shares, these transactions take place subsequent to and apart from the corresponding client transactions.

### **ITEM 12: BROKERAGE PRACTICES**

#### **A. Selection of Broker-Dealers for Execution of Client Transactions**

Legion Partners will periodically evaluate potential brokers and its approved list of brokers, together with the reasonableness of their commission rates against the following factors: reliability; financial responsibility; confidentiality protections; price, size, speed and anonymity of execution ("execution capability"); and the quality of brokerage and research services that might be provided.

When selecting brokers to execute particular client transactions, Legion Partners will use its evaluation of execution capability to select those brokers it believes will provide best execution, given the nature and circumstances of the transactions in question. If Legion Partners determines that more than one broker may be suitable for a particular transaction, it may (but is not required to) use its rankings to allocate that transaction among those brokers as it determines appropriate.

#### **1. Brokerage and Research Services**

If Legion Partners receives brokerage and research services from brokers who execute client transactions, Legion Partners will be using client commissions to obtain a benefit because Legion Partners does not have to pay for or produce these services itself. Any research received by Legion Partners from brokers will be



relevant to the implementation of Legion Partners' investment strategy and will be used for the benefit of the portfolios managed by Legion Partners.

In order to receive the benefit of brokerage and research services, Legion Partners may have an incentive to select one broker over another. However, as described above, Legion Partners will select those brokers it believes will provide best execution. Generally, if Legion Partners places trades with a broker who provides brokerage and research services, that broker will charge a commission that is greater than that of another broker who may be capable of executing the same transaction. Legion Partners will only pay a broker's commissions if it determines that they are reasonable in relation to the value of the services provided and within the safe harbor provided by section 28(e) of the Exchange Act as well as in compliance with Legion Partners' policy for soft dollar usage, which follows the CFA Institute Soft Dollar Standards.

If Legion Partners obtains brokerage and research services it will use them to service all clients. Legion Partners will not seek to allocate its use of such services to clients in proportion to the commissions or any soft dollars they pay.

## **2. Client Referrals not a Factor in Broker Selection**

Legion Partners does not select brokers to execute client transactions in order to obtain client referrals from such brokers. However, Legion Partners may use the Capital Introduction services offered by its brokers so long as it does not increase the fees incurred by its clients.

## **3. Client Directed Brokerage**

Legion Partners does not currently participate in client directed brokerage.

### **B. Trade Allocation and Aggregation**

#### **1. Trade Allocation**

Trades are allocated pro rata based on each participant's Market Adjusted Committed Capital (MACC) as a percentage of total MACC as calculated quarterly but adjusted during the quarter to reflect new investments or commitments.

In selected circumstances, one or more clients may have trade restrictions that would prohibit investment in specified companies. These restrictions may be driven by policy or legal constraints specified in the fund documents. Trade allocations will be made pro rata amongst participants based on the MACC of client(s) that are not restricted in the specified project.

All position sales will be allocated pro rata amongst Legion vehicles based on the number of shares held by each in relation to the total number of shares to be disposed. Co-investment clients that maintain the option to hold co-investment

positions beyond the date that the Legion vehicles exit a position may be excluded from the calculation (relative position) and pro rata allocation of sales.

## **2. Trade Aggregation**

When investing client assets, Legion Partners will typically aggregate all client trades into one or more trade orders. Due to the size of such trade orders, it will often be the case that not all trades within an order will fill at the same price. Further, in order to attempt to minimize the effect on the market of placing large orders, it may be necessary to divide transactions across separate trade orders, which take place across several days, weeks or even months. Finally, due to market conditions, it may not be possible to complete all trade orders, which may result in partial fills. This may in turn necessitate the placing of further trade orders.

To attempt to avoid any potential conflicts of interest that this may cause, Legion Partners has adopted the following policies and procedures. First, all trades within an order are typically allocated on a pro-rata basis based on MACC as detailed above. Second, clients pay the mean share price of all trades filled with a trade order. Third, all commissions are allocated on a pro-rata basis. Finally, in the event of a partial fill, all executed trades are allocated to the participating clients on a pro rata basis in accordance with their trade allocations.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Periodic Reviews**

Legion Partners produces daily and weekly internal reporting, which set out the preceding days trades and the weekly gains and losses of the portfolio. These reports are reviewed at least weekly by at least one partner. Legion Partners' Investment Committee (the "Investment Committee") performs more detailed reviews not less frequently than monthly to evaluate factors such as the status of holdings and performance of client accounts.

### **B. Non-Periodic Reviews**

Whenever an issue is raised with respect to a particular holding, affected accounts are reviewed as appropriate.

### **C. Client Reports**

Legion Partners provides client reports no less frequently than quarterly where it has discretionary investment authority. Such reports typically set out account holdings and performance. Actual reporting requirements range from daily to quarterly depending on the terms of the applicable Client Agreement, including periodic discussions with the Clients regarding the status of the investment (e.g., status of investment thesis and engagement status). Supplemental reports may be provided upon request or customized depending on the Client's preferences and circumstances.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. No Compensation Received from Non-Client**

Legion Partners does not receive any economic benefits from non-clients for providing investment management or other services to Legion Partners' clients.

### **B. Client Referrals**

Legion Partners may engage the services of one or more solicitors consistent with the requirements of Rule 206-4(3) under the Investment Advisers Act of 1940 primarily with respect to certain separate managed accounts pursuant to pre-existing relationships. The payments might induce the solicitor to recommend an investment manager to a client which the solicitor might not otherwise recommend.

Legion is a party to a written referral agreement with an independent investment manager, Gatemore Capital Management, LLP ("Gatemore"). Under this agreement, Legion Partners agrees to pay Gatemore a percentage of management fees Legion Partners receives from certain clients who engage Legion Partners during the term of the agreement. In addition, Gatemore is eligible for incentive allocations should Legion reach certain performance thresholds.

Legion is a party to a written solicitation agreement with third party marketing firm, Frontegra Strategies, LLC ("Frontegra"). Under this agreement, Legion Partners agrees to pay Frontegra a percentage of management fees Legion Partners receives from certain clients who engage Legion Partners during the term of the agreement. In addition, Frontegra is eligible for incentive allocations should Legion reach certain performance thresholds.

Legion is a party to written solicitation agreements with certain broker dealers, (currently Gordian Investments, LLC ("Gordian")). Under these agreements, Legion Partners agrees to pay the broker dealers a percentage of management fees Legion Partners receives from certain clients who engage Legion Partners

during the term of the agreement. In addition, the broker dealers are eligible for incentive allocations should Legion reach certain performance thresholds.

#### **ITEM 15: CUSTODY**

Legion Partners does not maintain direct custody or possession of any of its clients' funds or assets. Legion Partners will ensure that all information on all trades executed for its clients are provided to the appropriate custodian and fund administrator. The fund administrator shall provide monthly statements to Legion Partners and quarterly statements to Legion Partners' Clients.

However, under the definition of "custody" as described in SEC Rule 206(4)-2, Legion Partners is deemed to have custody of its clients' funds or assets as Legion Partners has the authority to obtain possession of the assets. Specifically, Legion Partners is authorized by its clients to withdraw investment management fees directly from client accounts and is authorized to change custodians without first obtaining permission from the clients.

#### **ITEM 16: INVESTMENT DISCRETION**

Legion Partners generally has discretionary authority over Client assets in pooled investment vehicles, co-investments and separately managed accounts. Clients may limit this authority by imposing restrictions on investing in certain securities or types of securities. Clients typically grant Legion Partners this authority by executing their Client Agreement. In addition, Legion Partners may not have discretionary services over Client assets where the investment advisory services are part of pension consulting services related to specific investments.

#### **ITEM 17: VOTING CLIENT SECURITIES**

Voting proxies is an important part of Legion Partners' investment strategy and its engagement of portfolio companies. Consequently, Legion Partners votes Clients' securities unless otherwise agreed with a respective client, e.g., where the Client retains discretionary authority in conjunction with pension consulting services.

##### **A. Policy**

Legion Partners' policy is that each proxy proposal should be individually reviewed to determine whether it is consistent with Legion Partners' investment strategy and in the best interest of its clients, taken as a whole.

##### **B. Procedure**

Legion Partners has developed the following procedures for voting proxies:

- The Investment Committee shall be responsible for reviewing the special

and/or annual report, proxy proposals and proxy proposal summaries. The Investment Committee shall take into consideration what vote is consistent with Legion Partners' investment strategy and in the best interests of Legion Partners' clients, taken as a whole. The Investment Committee will then vote the proxies in accordance with its policy.

- In reviewing the proxies and making voting decisions, Legion Partners generally performs its analysis internally for each investment; however, from time to time, the Investment Committee may review external sources' commentary such as ISS and Glass Lewis.
- Legion Partners shall maintain copies of each annual report, proposal, proposal summary, actual vote, and/or any other information required to be maintained for a proxy vote.
- The Investment Committee may direct certain staff members to complete the forms in accordance with specific voting instructions provided by the Investment Committee.
- With respect to proxy votes on topics deemed, in the opinion of the Investment Committee, to be controversial and/or particularly sensitive, the Investment Committee will provide a written explanation for the proxy vote, which will be maintained with the record of the actual vote in Legion Partners' files.

#### **C. Client Directed Voting**

Where Legion Partners has voting authority, it does not currently allow Clients to direct Legion Partners' voting of their securities.

#### **D. Conflicts of Interest**

Legion Partners is guided by fiduciary principles in the management of conflicts of interest. Put simply, Legion Partners is expected to always act in the best interests of its clients. Legion Partners' fiduciary obligation applies in every aspect of our dealings with clients, regardless of the account relationship, assets under management or fee structure. To address these types of conflicts, Legion Partners has adopted policies and procedures pursuant to which allocation decisions may not be influenced by fee arrangements, and investment opportunities will be allocated in a manner that Legion Partners believes is consistent with its obligations as an investment adviser.

#### **E. Further Information**

Clients may obtain a copy of Legion Partners' Proxy Voting Policies and Procedures or information about how Legion Partners voted any security by submitting a written request to Legion Partners. Legion Partners will provide requested documents and information within a reasonable period of time or as otherwise agreed in the Investment Agreement with a client.

**ITEM 18: FINANCIAL INFORMATION**

Legion Partners does not require Clients to pay any advisory fees more than six months in advance. Legion Partners has never been the subject of a bankruptcy petition.

**ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Legion Partners is not registered with any state securities authority.