



FIRST LONG ISLAND
INVESTORS, LLC

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(Part 2A of Form ADV)

This brochure provides information about the qualifications and business practices of First Long Island Investors, LLC. If you have any questions about the contents of this brochure, please contact us at: 516-935-1200, or by email at bruce@fliinvestors.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.

Any reference to First Long Island Investors, LLC as a “registered investment adviser” or as being “registered” does not imply a certain level of skill or training.

Additional information about First Long Island Investors, LLC, is available on the SEC’s website at www.adviserinfo.sec.gov.

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Item 2. Material Changes

This Section describes the material changes to our Brochure since the annual amendment of our Form ADV on March 31, 2021.

Item 5 (Fees and Compensation)– This section has been updated to describe quarterly fee adjustments for separately managed accounts based on contributions and/or withdrawals made intra quarter.

Item 4. Advisory Business

A predecessor corporation of FLII was formally established in 1983 by Robert D. Rosenthal and Ralph F. Palleschi. We are registered with the U.S. Securities and Exchange Commission as an investment adviser. Bob and Ralph are our principal owners. Bob is Chairman and Chief Executive Officer of FLII, and Chief Investment Officer. Ralph is President and Chief Operating Officer and a member of its Investment Committee.

FLII provides a broad range of investment and financial services to clients. Our advice is designed to provide clients with a long-term approach to wealth management that embodies a prudent, individualized asset allocation. Our goal is the preservation and growth of each client's net worth.

We recommend that clients diversify their investments among assets, including (where suitable) equities (in separately managed accounts and through partnerships), in bonds, and in private investments. Equity investments include traditional equity investments and more defensive or hedged equity investments.

Our principals invest side-by-side with our clients in every FLII strategy (other than fixed income which is personalized for each client). Where a strategy is offered through different investment vehicles, our principals invest in the vehicle suitable for them, but not in every vehicle available.

We tailor our advice to client's needs (we only provide advice to clients where our strategies are compatible with what we believe are the client's needs). Clients may, in limited circumstances, place restrictions on our investments. We have accepted restrictions where clients hold low basis stocks they do not want to sell.

Affiliates of FLII are general partners of certain partnerships in which our clients invest as limited partners.

We are also a multi-family family office and provide family office services to certain clients.

We manage \$1,476,669,849 on a discretionary basis and we oversee \$506,239,957 in assets on which we do not have discretionary authority (both as of December 31, 2020).

Item 5. Fees and Compensation

Most clients pay fees for investment management in one or two ways:

- (i) If a client's assets are held in a separately managed brokerage account, the client is charged an annual advisory fee, paid quarterly in advance. (See below.) These fees generally are deducted from the client's account but may be paid directly. We make pro rata adjustments to the quarterly fee charged in the event a client makes any contributions and/or withdrawals to the account on any day during that quarter that in the aggregate equal or exceed 10% of the account's value measured as of the last day of the prior quarter. Such fee adjustments will be added to or subtracted from the next quarter's advisory fee.
- (ii) If a client's assets are invested in a partnership, that partnership generally pays an annual management fee payable quarterly in advance and a client's assets may be subject to an incentive allocation (see Item "6"). In addition, partners bear their pro rata share of other partnership expenses. (See below.) Fees are generally not negotiable. In FLI's sole discretion, the assets managed or overseen of clients who are family members may be aggregated for the purpose of determining whether such clients meet certain fee breakpoints.

Clients are not charged custody fees by broker-dealers we recommend to clients. (A client may choose to custody his or her assets at a custodian bank which may charge custody fees.) The qualified custodians used to custody assets of certain partnerships we manage charge the partnerships custody fees. Certain of our clients use Pacific Premier Bank ("PACIFIC"), a self-directed IRA custodian which merged with a previous custodian certain clients used, PENSICO Trust Company ("PENSICO"), to hold interests in partnerships in their retirement accounts. PACIFIC charges these clients fees as set forth in the fee schedule we negotiated with Pensco.

Clients bear the cost to trade securities held in their accounts or held by partnerships in which they invest. See Item "12", Brokerage Practices. Each of the FLI partnerships also bear certain partnership expenses described in the governing documents of such partnerships including legal, accounting, audit and surprise exam fees as applicable.

Clients who invest in mutual funds bear the fees and expenses charged by the funds. Client's idle cash held at their custodian broker-dealers is automatically invested in money market funds which assess their own management fees. During those periods when client funds are so invested, clients are paying fees

to FLII on the total amount of assets under management and to the investment manager of the money market funds on the assets invested in the money market funds.

Normally, fees are structured as a percentage of assets managed, billed quarterly in advance and subject to subsequent adjustment for contributions and withdrawals as described above. Fees are 1 1/2% annually for core equity accounts (1.2% for amounts in excess of \$5 million, 1.0% for all assets in accounts in excess of \$15 million, 1% for all assets in accounts of donor advised funds ("DAF") where the DAF charges an administrative fee in excess of 0.5% annually to the underlying account, and negotiable for clients with FLII relationships in excess of \$30 million), 0.4% annually for fixed income accounts (0.3% for amounts in excess of \$2.5 million, and negotiable for clients with FLII relationships in excess of \$50 million), 1% annually for accounts managed with low-basis legacy positions, and fees are 1% on the first \$5 million, 0.85% on the next \$5 million and 0.75% on the next \$15 million for dividend growth accounts. Fees for dividend growth accounts totaling more than \$25 million are negotiable. We have negotiated a flat fee for all assets for clients who have more than \$60 million in assets in accounts separately managed by FLII at the inception of the relationship.

FLI Select Equity Fund, L.P. ("FLI Select"), FLI Select Equity Fund II, L.P. ("Select II"), and FLI Partners Fund, L.P. ("Partners Fund") pay to FLII an annual management fee of one percent (1%) of assets under management.

Limited partners of FLI Value Fund, L.P. ("Value Fund") admitted to the partnership after July 2008 pay an annual management fee of (i) 0.75% when their aggregate capital account balances are less than \$5,000,000, (ii) 0.65% when their aggregate capital account balances are greater than or equal to \$5,000,000 but less than \$10,000,000 and (iii) 0.50% when their aggregate capital account balances are greater than or equal to \$10,000,000 or when they have greater than or equal to \$15,000,000 of assets under management of FLII via managed accounts, partnerships where FLII serves as the management company where an affiliate of FLII serves as general partner or where FLII acts as a solicitor. The management fee for Value Fund limited partners who invested in the partnership prior to September 1, 2008 is 0.50% per annum.

FLI Growth Fund, L.P. ("Growth Fund") pays to FLII annual management fees ranging from one-half of one percent (0.50%) to three-quarters of one percent (0.75%) with the same break points as new limited partners of Value Fund.

FLI Private Equity Fund I, L.P. and FLI Real Assets Fund, L.P. pay annual fees of \$25,000, and 0.25% of committed capital, respectively, to cover the partnerships' overhead expenses.

FLI Fairholme Partners, LP ("Fairholme Fund") no longer pays a management fee to FLII or any of its affiliates.

FLI Sterling Realty Finance, LP ("FLI Sterling") and FLI Sterling Realty Finance II, LP ("FLI Sterling II") do not pay to FLII or any of its affiliates any management fees. However, an affiliate of FLII is entitled to receive a percentage of the carried interest distributions and management fees applicable to the underlying partnerships in which FLI Sterling and FLI Sterling II were formed to invest, solely in respect of each of FLI Sterling and FLI Sterling II's invested capital in such underlying partnership.

FLI Perosphere Fund, LP ("Perosphere Fund") pays to FLII an annual fee of 1% of unreturned capital contributions for management fees and overhead expenses.

Each of the FLI partnerships also bears the fees, expenses and incentive allocation (if any) of its underlying managers. Partners Fund and Perosphere Fund do not invest through an underlying manager.

Clients are entitled to a pro-rata reimbursement of that portion of the management fee paid for any part of the quarter remaining at the time investment advisory services are terminated.

We also receive retainers relating to services rendered which encompass continuous advice on investment, asset allocation, tax, estate planning, and other family office services.

We also are compensated with respect to assets managed by other investment managers as described in Item "10" below.

Item 6. Performance-Based Fees and Side by Side Management

FLII clients may invest, where suitable, in partnerships that charge a management fee (See Item "5" above) and where a portion of gains is allocated from the client's capital account to the general partner.

Fifteen (15%) percent of any net capital appreciation in excess of 8% (in excess of 12% for partners admitted on or before January 1998 and in excess of 10% for any partner who invested between March 31, 1998 and October 1, 2003) per annum will be allocated to the general partners of FLI Select and Select II, and 20% of any net capital appreciation per annum (subject to a high water mark) will be allocated to the general partner of Partners Fund. Limited partners of Value Fund are subject to an incentive allocation ("Incentive Allocation") equal to 10% of the net capital appreciation allocated to the capital account of each limited partner to the extent that the net capital appreciation exceeds a non-cumulative annual rate of return of 7%. However, the Incentive Allocation will

not exceed 0.75% of the value of such limited partner's capital account at the beginning of the fiscal year for which such incentive allocation relates. Ten percent (10%) of any net capital appreciation in excess of 7% (but in no event more than 0.75% of the value of a limited partner's capital account at the beginning of the fiscal year for which such incentive allocation relates) will be allocated to the general partner of Growth Fund. The General Partner of the Perosphere Fund is allocated a 20% carried interest subject to a 6% per annum cumulative preferred return, compounded annually and the return of partners' capital contributions.

As noted in Item "5" above, we also charge fees based on a percentage of assets under management (a "Percentage of Assets Fee"). The incentive allocation may be greater than the Percentage of Assets Fee. Accordingly, we have a conflict of interest in that we have an incentive to favor partnerships which can generate higher compensation for us than a Percentage of Assets Fee would generate. In addition, performance-based compensation may create an incentive for us to recommend an investment that may carry a higher degree of risk to clients. Partners Fund may purchase, about the same time as Percentage of Assets Fee accounts purchase, the same security as Percentage of Assets Fee accounts. We address this conflict by reviewing trades for Partners Fund versus accounts charged a Percentage of Assets Fee to ensure that no pattern exists to favor Partners Fund over the Percentage of Assets accounts.

Item 7. Types of Clients

We provide advice to individuals (including high-net-worth individuals), corporations, pension and profit sharing plans, pooled investment vehicles, and charitable organizations. Clients generally must have a minimum of \$5,000,000 in assets under management at the inception of the relationship.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Clients' assets are generally invested in separately managed accounts or in partnerships. Separately managed accounts invest in equities or fixed income. Equities managed internally are invested in what we call a "core" strategy and a "dividend growth" strategy. Assets of some clients are invested in separately managed accounts advised by an outside investment manager.

The core strategy is a traditional long-only equity investment strategy that generally holds 20-30 large-cap growth and value companies. Companies included in the portfolio are identified by a sub-committee of our investment committee through internal and third party research, as well as insights from economic consultants, respected investment managers, and SEC 13-F filings.

Our dividend growth strategy generally holds approximately 25 large-cap

companies that are diversified by industry, financially sound (based upon ratings by ratings providers and our judgment), pay an average dividend of approximately 2.5% per year (as of the date of this brochure), and have generally raised their dividends at least once in the last two years. Our research is done internally using published research materials.

Bonds are purchased by a member of our investment committee based on guidelines established by the committee.

Some of our partnerships invest with other investment managers or other funds of funds. In these latter cases, we vet the fund of funds manager and review its underlying managers. See item 10 regarding strategies managed by third parties to which clients are referred. Our internally managed partnership, FLI Partners Fund, L.P., invests in large and mid-cap growth stocks and sells calls on these positions. Companies included in the portfolio are identified by a sub-committee of our investment committee through internal and third party research, as well as insights from economic consultants, respected investment managers, and SEC filings. The Perosphere Fund was formed to invest in a single private investment.

Risk of Loss

- All securities investments risk the loss of capital that clients should be prepared to bear.
- An investment in a partnership involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation is made that a partnership's investment program, including, without limitation, its investment objectives, diversification strategies, or risk monitoring goals, will be successful, and investment results may vary substantially over time. Investment losses may occur from time to time and an investor could lose all or a substantial amount of his or her investment. A partnership's investment methodology should not be considered "conservative," "safe," "risk free" or "risk averse."
- Past performance is no guarantee of future results, and the past performance of any accounts or partnerships managed by FLII should not be considered indicative of the future performance. Investment return and principal value of an investment will fluctuate over time and may be volatile.
- Limited Partners of any partnership have very limited authority to make decisions or to exercise business discretion on behalf of the partnership. The authority for all such decisions is delegated to the general partner and management company. The success of the partnership therefore is expected to be significantly dependent upon the expertise and efforts of

the general partner and management company of the partnership or the general partner and management company of underlying funds of the partnership, if any.

- A partnership's portfolio does not have to be diversified. Accordingly, a partnership's portfolio may be subject to higher risk and a more rapid change in value than would be the case if the partnership was required to be diversified.
- An investment in a partnership is suitable only for sophisticated investors who have no need for current liquidity. There is no public market for any partnership's interests and none is expected to develop. An investment in a partnership provides limited liquidity since partnership interests are not freely transferable and limited partners have limited withdrawal rights. A partnership's investments may also be illiquid and subject to legal, regulatory and contractual transfer restrictions. Therefore, partnership interests should only be acquired by investors able to commit their funds for an extended period of time.
- None of our partnerships are registered as an investment company under the Investment Company Act of 1940 and thus are not subject to the same regulatory requirements as mutual funds. In addition, partnership interests will not be registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.
- Subject to applicable law, each partnership's operative documents contain broad indemnification provisions that require the partnership to indemnify the general partner, the management company and others harmless from any losses or costs incurred by them under certain circumstances.
- The incentive allocation made to the general partner of investment partnerships may create an incentive for FLII to make partnership investments that are riskier than it would otherwise make, and the expenses, fees and incentive allocation reduce partners' returns.
- The general partner of each partnership or an affiliated entity is the general partner of other affiliated investment funds and is not restricted by any partnership's limited partnership agreement from forming additional investment funds, from entering into investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with the partnership and/or may involve substantial time and resources of the general partner or its affiliates and its principals.
- When a partnership writes a covered call option it gives up the opportunity for gain on the underlying security above the exercise price of the option.

- Partnerships' portfolio managers may invest in securities of foreign corporations and foreign countries. Investing in foreign securities involves certain considerations not usually associated with investing in securities of United States companies, including political and economic considerations, such as greater risks of expropriation, nationalization, general social, political and economic instability, the small size of securities markets in such countries, fluctuations in exchange rates and costs of currency conversions, and certain government policies that may restrict the partnership's investment opportunities.
- Certain partnerships and underlying portfolio managers may use borrowings and leverage their investments, which presents opportunities for increasing returns and potentially increasing losses as well.

Please refer to the offering memorandum which is provided to prospective partners for a detailed discussion of the risk factors involved with a particular partnership.

Item 9. Disciplinary Information

Neither FLII, nor its employees, have legal or disciplinary events that are material to a client's or a prospective client's evaluation of our business or the integrity of our management.

Item 10. Other Financial Industry Activities and Affiliations

An affiliate of FLII, FLI Investors, LLC ("FLI"), is registered with the U.S. Securities and Exchange Commission as a broker-dealer, and several of our employees are registered in various capacities (principals, financial and operations principals, registered representatives, etc.) under this registration. We do not custody securities (but see Item "15" below) nor execute securities trades for clients.

Kudu Investment Management, LLC ("Kudu"), a registered Investment Advisor, has through its affiliate Kudu Investment US, LLC, made a strategic investment in FLII and certain of its affiliates. Although this could be deemed a material conflict of interest, FLII believes that any potential conflict is mitigated by the fact that Kudu does not have any input or influence on the management of FLII or its affiliates or the advisory services provided to clients of FLII.

FLII or FLI refers, from time to time, certain clients to invest in a managed account or a partnership or similar investment vehicle managed by another registered investment adviser. The fees our clients pay to such managers (and/or the carried interest attributable to our clients that such managers or their

affiliates receive) are not higher than they would otherwise be because of these relationships. As we are compensated for such referrals, we disclose (in writing) the arrangement to the prospective referral client. Referrals are pursuant to agreements that conform to the rules promulgated under the Investment Advisers Act of 1940. We believe this disclosure addresses any conflicts created by these referral arrangements. The agreements in place today are described below.

FLII has entered into agreements with W.P. Stewart & Co., Ltd., which was subsequently acquired by AllianceBernstein ("AB") (a registered Investment Advisor), whereby FLII and AB share in the responsibility and fees for investment services provided to clients referred to AB by FLII. The share of fees allocated to FLII is 33.3%. No brokerage commissions are paid to FLII by such client's accounts. FLII also receives an annual fee equal to 33.3% of the fee paid to AB on assets under management to service accounts referred to AB by FLII's predecessor registrant, whose business AB acquired. FLII entered into an agreement with W.P. Stewart & Co., Inc. ("WPS Inc."), a registered investment adviser, subsequently assigned to WPS Inc.'s affiliate, AllianceBernstein L.P. ("ABLP") whereby FLII is paid 25% of the fees paid to ABLP attributable to assets referred by FLII to AllianceBernstein Concentrated Growth Fund. This agreement is not in effect for new referrals.

FLI has entered into agreements with Sterling Stamos Capital Management, L.P. ("SP") and Sterling Stamos Associates, L.L.C. ("SSP") (affiliates of Sterling Stamos) whereby FLI is paid 40% of the fees paid to SP by limited partners referred to partnerships of which SP or an affiliate is the management company, including FLI SS Private Equity Fund I, L.P., and FLI SS Real Assets Fund, L.P. A partnership in which an affiliate of FLII is general partner also receives 40% of any incentive allocations received by SSP attributable to such limited partners.

FLI has entered into an agreement with Sandalwood Securities, Inc. ("Sandalwood") whereby FLI is paid 33 1/3% of the total of the fees and expenses paid to Sandalwood by limited partners referred by FLI to partnerships of which Sandalwood is investment manager.

FLI has entered into an agreement with Galaxy Realty Capital, LLC ("Galaxy") and Sterling Sponsor RFI, LLC ("Sterling") whereby FLI is paid 33 1/3% of the management fees paid to Galaxy by FLI Sterling Realty Finance LP ("FLI Sterling") and of the carried interest received by Sterling attributable to FLI Sterling's interest in Sterling Realty Finance LP.

FLI has entered into an agreement with Galaxy Realty Capital, LLC ("Galaxy") and Sterling Sponsor RFI II, LLC ("Sterling") whereby FLI is paid 33 1/3% of the management fees paid to Galaxy by FLI Sterling Realty Finance II LP ("FLI Sterling II") and of the carried interest received by Sterling attributable to FLI

Sterling II's interest in Sterling Realty Finance II LP.

We do not have any material relationship with any insurance company, agency or real estate broker. FLI maintains an insurance license (and one officer maintains an insurance license). FLI may earn fees in connection with such business from clients and we disclose that we are acting as an agent in such business to any client where we are compensated for doing such business.

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

We have adopted a code of ethics that requires our supervised persons to meet our and our employees' fiduciary obligation to our clients. Our supervised persons must comply with federal securities laws, they must report their personal securities transactions to us for review, and they must report any violations of our code of ethics promptly to our chief compliance officer.

As noted above, we recommend that certain clients invest in partnerships where an affiliate of FLII is general partner, and we are compensated by those partnerships. We disclose our compensation in any partnership that we recommend to clients. In addition, our employees may buy and sell the same securities as our clients at or about the same time as our clients. We review trades quarterly to ensure that our employees don't engage in a pattern of trading in anticipation of client trading.

Our code of ethics is available to clients and prospective clients upon request.

Affiliates of FLII are general partners of several partnerships that we formed to provide diversified investment vehicles for our clients' investments. Our officers and employees also invest in these partnerships. We believe that the partnership form provides a vehicle that enables clients to obtain access to investment managers that they may not be able to otherwise obtain. Nonetheless, we have a conflict of interest. We address this conflict by disclosing the costs of investing in a partnership, including compensation to us, in the offering memoranda pursuant to which interests in these partnerships are offered.

Item 12. Brokerage Practices

From time to time, FLII may agree to pay a broker-dealer commissions for effecting client transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. Accordingly, FLII may be deemed to be paying for research and other services with "soft" or commission dollars. FLII (or the relevant account's portfolio manager) will effect such transactions, and receive such brokerage and research services, that are of

benefit to the accounts.

Currently, FLII effects such transactions, and receives such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934.

UBS Financial Services Inc. ("UBS") provides FLII with quotation (NYSE and options price reporting) and news services (Bloomberg Finance L.P. and FactSet Research Systems Inc.). Research services furnished by UBS are generally used in servicing all of FLII's accounts, although not all such services may be used in connection with any particular client account, and not all accounts that benefit from such services pay commissions to UBS. Clients whose brokerage is directed to UBS are paying for soft dollar research that FLII uses to benefit all of its advisory accounts.

Using client's commissions to obtain research and services provides a benefit to us as we do not have to directly pay for such research and services. In addition, we have an incentive to select or recommend the broker we use for trades in client accounts based on our interest in receiving the research and services, rather than on our clients receiving most favorable executions.

We have negotiated with UBS an agreement where our clients pay commissions of four cents (\$.04) per share on equity trades, and two cents (\$.02) per share on option contracts.

FLII bunches trades for clients (which can include the First Long Island Investors LLC 401K Profit Sharing Plan and accounts of FLII officers and employees) whose brokerage is directed to UBS. Such practice results in all clients whose trades are executed at the same time receiving the same price, and has no effect on commissions. Prices are averaged which may result in clients receiving a higher or lower price than clients would receive if trades were done individually. FLII believes that, over time, bunching trades is beneficial to clients.

The brother of the Chairman, Chief Executive Officer and Chief Investment Officer of FLII is Senior Vice President –Investments who services the accounts of clients of FLII at UBS. Because non-client directed brokerage is directed to UBS, commission rates on trades are not individually negotiated, which may result in clients paying a higher commission on a specific trade than they might otherwise pay except as described above. FLII may pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of research services provided by the broker.

We believe it is more efficient for us and clients to open accounts for clients at one brokerage firm. This reduces the amount of paper received by clients and

us and facilitates our placing block trades. Accordingly, we negotiated the commission rates discussed above in this item and the agreement to provide research and services to us with one brokerage firm.

We permit clients to direct brokerage. Clients who direct brokerage to specific broker-dealers may not receive best price and execution, since under such circumstances, FLII will not be able to bunch such trades with its other trades (which possibly reduce transaction costs), and such trades will be placed after FLII causes its other trades to be executed, and we will not be able to negotiate commissions on those clients' behalves. Directing brokerage may cost clients more than not directing brokerage.

FLII's traders may on occasion experience errors with respect to trades made on your behalf. Trade errors can result from a variety of situations, including, but not limited to, when the wrong security is purchased or sold. FLII endeavors to detect trade errors prior to settlement and correct them in an expeditious manner. FLII's traders review trading records. When a possible trade error is detected, the traders will notify appropriate personnel, and they will review the applicable trade to determine if in fact an error did occur, the cause of the error, the effect of the error, and whether or not the error can be corrected prior to settlement.

FLII will reimburse clients for net losses resulting from trade errors to the extent that FLII is required to do so under the governing agreements. In general, FLII will not be liable to clients, in damages or otherwise, for a trade error, unless such trade error results from FLII's gross negligence, misconduct, or violation of applicable laws.

Item 13. Review of Accounts

A Portfolio Administrator reviews all securities transactions for investment advisory clients to reconcile FLII's records with the applicable custodian's records on a daily basis. FLII's Investment Committee reviews all client asset allocations to confirm that the accounts are invested in accordance with the client's needs and directions to FLII on a quarterly basis.

We provide clients a statement of assets managed on either a quarterly or monthly basis. These statements provide a summary of the investments we oversee for each client listed by asset class, and show the investment's value for the current and previous period.

Item 14. Client Referrals and Other Compensation

FLII shares with certain persons investment advisory fees we receive from referred clients. These arrangements are disclosed to clients and are pursuant

to written agreements as provided by Rule 206(4) - 3 under the Investment Advisers Act of 1940. The fees charged to such clients are not affected by such arrangements, nor are such clients charged any other fees on account of such arrangements.

FLII or FLI also refers, from time to time, certain clients to invest in a managed account or partnership or similar investment vehicle managed by another registered investment adviser. As we are compensated for such referrals we disclose (in writing) the arrangement to the prospective referral client. This causes a conflict of interest because we are compensated for referring assets to others. We address this conflict by making the written disclosure discussed above.

Item 15. Custody

Although we do not have custody of clients' assets in the common meaning of "custody", we are deemed to have custody of client funds or securities with respect to assets in partnerships where we are general partner (or where we have a similar role or where an affiliate is general partner or similar). In these instances clients either (1) annually receive an audited financial statement of the partnership or (2) the partnership deposits its liquid assets and indicia of ownership of its underlying assets with a qualified custodian who sends statements to partners on at least a quarterly basis. In the latter case, a surprise examination of the partnership's assets is conducted on an annual basis by an accountant registered with, and subject to inspection by, the Public Company Accounting Oversight Board.

FLII's clients receive a quarterly or monthly statement of assets that lists the values of their investments (including those held in partnerships). Because the assets reported by the custodian represent the *partnership's* assets, and not an *individual partner's* assets, reports of an individual client's holdings will not be the same as the custodian's statements of the partnership's holdings.

Item 16. Investment Discretion

We have discretion with respect to all assets we manage. If the assets are invested in a pooled vehicle, the actual management of the assets may be delegated to another entity or entities.

We generally do not accept restrictions on our investment discretion. In isolated cases we have accepted investment restrictions with respect to low basis stock or from an employee of an accounting firm that restricts investments of its employees.

Item 17. Voting Client Securities

We have authority to vote client securities (except where another investment manager oversees assets, in which case such manager has authority to vote clients' securities). If a client wishes to vote proxies for assets held in a separately managed account on his or her own behalf, the client may so advise us at any time and we will arrange for direct voting by the client.

If a conflict of interest were to exist between us and clients, we will disclose to clients the substance of our interest in the issue and seek from our clients written direction on how to vote on that issue. If we do not timely receive written direction, we will resolve the conflict by voting securities as recommended by the issuer's management.

Clients may request from us information on how we voted their securities and a copy of our proxy voting policies and procedures upon request to Executive Vice President - General Counsel, either at our main phone number or via email to Bruce@FLIInvestors.com.

Item 18. Financial Information

We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

There are no financial conditions that are reasonably likely to impair FLI's ability to meet our contractual commitments to clients.

FLI has not been the subject of a bankruptcy petition at any time during the past ten years.