

## **AEGIS FINANCIAL CORPORATION**

### **BROCHURE**

March 28, 2022

**This brochure provides information about the qualifications and business practices of Aegis Financial Corporation (the “Adviser”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (703) 528-7788. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Additional information about Aegis Financial Corporation also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Registration with the SEC does not imply a certain level of skill or training.

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**Item 2.      Material Changes**

The adviser has made routine updates and clarifying changes to the Brochure. There have been no material changes since the Adviser's last annual Brochure update filed on March 18, 2021.

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#### **Item 4. Advisory Business**

The Adviser is an investment adviser with its principal place of business in McLean, Virginia. The Adviser commenced operations as an investment adviser on August 1, 1994 and has been registered with the SEC since July 8, 1994. Mr. Scott L. Barbee is the sole owner of the Adviser.

The Adviser provides security selection and investment management services on a discretionary basis to its clients, which include individuals and institutions with separately managed accounts. The Adviser also provides investment management services to a registered, open-end investment company, The Aegis Funds, consisting of the Aegis Value Fund (the "Fund").

The Adviser specializes in the provision of investment management services involving small-cap value equities and an allocation strategy between small-cap value equities and fixed-income securities, including high yield bonds. The Adviser does not provide investment supervisory services to its clients.

The Adviser does not tailor its investment management services to a particular client's financial circumstances. Under certain circumstances, however, the Adviser tailors its services to meet certain client requirements. The Adviser will, upon written client request, abide by client-imposed restrictions regarding investments in certain securities or certain types of securities or other investments. In addition, clients may request in writing that restricted cash be set aside or that account management be tailored to meet regular or ad hoc client withdrawals. The Adviser may also tailor its advisory services to meet particular institutional investor mandates, which may include limitations on cash, industry or country exposure.

As of February 28, 2022, the Adviser had approximately \$238 million client assets under management, all of which were managed on a discretionary basis.

#### **Item 5. Fees and Compensation**

The Adviser charges each client an investment management fee based on the value of the client's assets under management. The standard fee schedule is 1.20% per annum of assets under management for small cap deep value and precious metals mining equity accounts and 1.00% for strategic allocation accounts.

Investment management fees for most separately managed client accounts are charged each quarter in advance based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest, excluding the Fund, unsupervised securities and restricted cash) on the last day of the preceding quarter. These fees are negotiable based on the nature and extent of services rendered. Different clients may have differing payment methods and levels of fees charged.

A client can select the method by which it would like to pay the investment management fee: the Adviser either deducts the investment management fee from client accounts by instructing the client's custodian each quarter, or bills clients for investment management fees quarterly.

In addition to paying investment management fees, client accounts will also be subject to other investment expenses such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees associated with products or services that may be necessary or incidental to such investments or accounts. Client account assets may be invested in pooled investment vehicles. In these cases, client accounts will bear their pro rata share of the underlying pooled investment vehicle's operating and other expenses including, in addition to those listed above: sales expenses, legal expenses; internal and external accounting, audit and tax preparation expenses; and organizational expenses. Client accounts will also bear their pro rata share of the investment management fee and other fees of the underlying pooled investment vehicle, which are in addition to any fees or other compensation paid to the Adviser.

When managed account client assets are invested in the Fund, the Adviser excludes assets invested in the Fund from the asset base used for purposes of determining the amount of account level investment advisory fees payable to the

Adviser. The investment management fees the Adviser earns on managed account assets invested in the Fund may be higher than the advisory fees the Advisor would otherwise earn on those managed accounts assets if they were not invested in the Fund, thereby giving the Adviser an incentive to invest managed client assets in the Fund.

Please refer to Item 12 of this Firm Brochure for a discussion of the Adviser's brokerage practices.

As noted above, clients are required to pay the Adviser's fees in advance. Such clients can obtain a refund of any pre-paid fee if the advisory contract is terminated before the end of a billing period. The fee refundable to the client is the difference between the fee paid for the entire billing period and the fee calculated based on the value of the assets on the termination date and prorated for the number of days during the quarter in which the investment management agreement was in effect.

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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients, including the Fund. In addition, certain client accounts have higher asset-based fees than other accounts. When the Adviser and its investment personnel manage more than one client account a potential exists for one client account to be favored over another client account. The Adviser and its investment personnel have an incentive, for example, to favor client accounts that pay the Adviser, and indirectly the portfolio manager, higher management fees or to favor accounts, such as the Fund, in which the Adviser and its investment personnel have investments.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including client accounts with varying levels of fees and in which the Adviser and its investment personnel have investments. The Adviser reviews investment decisions for the purpose of ensuring that accounts with substantially similar investment objectives are treated equitably over time. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities in an equitable manner over time.

Client orders are typically, but not always, combined and placed as an aggregated order with a broker. When orders are aggregated, larger accounts (generally those with assets under management of \$5 million or more) typically receive fill allocations of trades pro rata based on asset size. To minimize the number and impact of ticket charges on smaller accounts (generally those with assets under management of less than \$5 million), smaller accounts as a group typically receive an aggregate fill allocation set aside based on the pro rata aggregate asset size of all participating smaller accounts. Fills set aside for these smaller accounts are allotted to sequentially bring these accounts to a target holding level as determined by random rotation. As such, when the opportunity for a full fill of the order to the predetermined target allotment is not achieved, the larger accounts typically receive partial fills to a level below the target allotment, while a portion of the smaller accounts high in the rotation will receive full fills to the target allotment and another portion of the smaller accounts low in the rotation will receive no fill. The Adviser believes that this process over time results in a fair and equitable distribution among accounts, although for any single trade this may not mean identical treatment of all participating accounts.

To the extent orders for multiple accounts are aggregated by the Adviser and placed with a single broker, all fills from that broker on that aggregated day order are price-averaged. Smaller accounts that do not participate in an aggregated brokerage order, because of client directed brokerage or other best execution considerations, nevertheless remain in the smaller account random rotation, with the Adviser placing the order with the separate broker as the account comes up for fill. The Adviser may modify the above fill method to take into consideration other differences among accounts, including existing holdings of cash or securities among the accounts, as well as account restrictions.

Finally, the Adviser's procedures seek to allocate limited opportunities (such as initial public offerings or private placements) among accounts in a fair and equitable manner, while taking into consideration custodial or other limitations placed on client participation. The Adviser's allocation and trading procedures are monitored by the Adviser's chief compliance officer. Please refer to Item 12 of this Firm Brochure for a discussion of the Adviser's brokerage practices.

## **Item 7. Types of Clients**

The Adviser's clients consist of individuals, registered investment companies, trusts, corporations and other business entities.

The Adviser typically requires that a client invests a minimum of \$100,000 to open an account and to maintain a minimum account size of \$100,000 for separate accounts. If the account size falls below the minimum requirement due to market fluctuations only, a client will not be required to invest additional funds with the Adviser to meet the minimum account size.

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research and cyclical analysis. The Adviser offers the following investment strategies:

- *Small Cap Deep Value:* Assets in this strategy are invested primarily in common stocks that the Adviser believes are significantly undervalued relative to the market based on fundamental accounting measures including book value (assets less liabilities), revenues, or cash flow. This strategy is commonly known as a "deep value" investment strategy. Assets in this strategy may be invested in securities issued by companies of any market capitalization, including small- and mid-capitalization companies. The Adviser considers a small-capitalization company to be a company with a market capitalization (the value of all outstanding stock) of less than \$1 billion at the time of investment. The strategy has no percentage allocation for investments in small- or mid-capitalization companies, and may invest up to 100% in the securities of these companies. Assets in this strategy may also be invested in the securities of foreign companies and in real estate investment trusts ("REITs"). The Advisor may hold a significant portion of assets in this strategy in cash or cash equivalent instruments. If market conditions reduce the availability of securities with acceptable valuations, the Adviser may, for extended periods, hold larger than usual cash reserves until securities with acceptable valuations become available.
- *Strategic Allocation:* Assets allocated to this strategy will be primarily invested in a combination of the Aegis Small Cap Deep Value Strategy, fixed income securities, including lower-quality, high-risk U.S. and foreign corporate bonds, commonly referred to as high-yield bonds (or "junk bonds") that are rated below investment grade by Moody's Investor Services, Standard & Poor's, or Fitch Ratings, or that are unrated but are considered by AFC to be of comparable quality, income producing common stocks, preferred stocks, convertible bonds, or convertible preferred stocks, and cash or cash equivalent instruments. A minority of the assets allocated to the strategy may be, but are not required to be invested in equities or fixed income securities not covered above. Allocations will be varied from time to time by AFC with the intention of increasing returns and lowering investor exposure to market risk at times that AFC believes to be opportunistic. AFC may hold a significant portion of assets in this strategy in cash or cash equivalent instruments. If market conditions reduce the availability of securities with acceptable risk-adjusted expected returns, AFC may, for extended periods, hold large cash reserves in the strategy until securities with acceptable risk-adjusted expected returns become available.
- *Precious Metals Mining Equity:* Assets in this strategy will be invested primarily in common stocks that are involved in the precious metals mining industry and which AFC believes are undervalued relative to the market. Assets in the strategy may be invested in securities of companies with any market capitalization. The strategy preferences small-capitalization companies, defined as less than \$1 billion in market capitalization at the time of investment, but has no limitations or boundaries on allocations based on market capitalization and may invest up to 100 percent of its portfolio in small, medium sized, or large companies. The strategy is focused on precious metals mining companies typically domiciled in Canada, Australia, the USA or England, however many of these companies have material exposure to corporate assets and mining projects in jurisdictions world-wide. AFC may hold a significant portion of assets in this strategy in cash or cash equivalent instruments. If market conditions reduce the availability of securities with acceptable risk-adjusted expected returns, AFC may, for extended periods, hold large cash reserves in the strategy until securities with acceptable risk-adjusted expected returns become available.

These methods, strategies and investments involve risk of loss to clients and clients must be prepared to bear the loss of their entire contribution/investment. The material risks relating to the foregoing investment strategies and the securities and other investments primarily used to implement the strategies include:

- *Value-Oriented Investment Strategies Risk.* Value-oriented investment strategies bring specific risks to a portfolio. Due to its value orientation, this strategy may have a higher than average exposure to cyclical stocks. Cyclical stocks may tend to increase in value more quickly during economic upturns than non-cyclical stocks, but also lose value more quickly during economic downturns. This strategy may invest in companies that are reporting poor earnings. These companies may have difficulty retaining existing customers and suppliers, or have difficulty attracting new customers. In addition, these companies may have difficulty generating sufficient cash flow and obtaining required financing to maintain or expand their business operations. In some cases, these companies may face bankruptcy proceedings. The stock market may also have investment periods when value-oriented portfolios significantly underperform portfolio employing other investment strategies.
- *High-Yield Security Risk.* Investment in high-yield securities can typically involve a substantial risk of loss. These securities, which are rated below investment grade, are considered to be speculative with respect to the issuer's ability to pay interest and principal and they are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be volatile and these securities are generally much less liquid than investment-grade debt securities.

The high-yield bond market is significantly more volatile and is a much smaller market than the investment-grade bond market. The entire high-yield bond market can experience sharp and sudden swings. These swings might be caused by rapid changes in market psychology, volatility in the stock market, changes in securities regulations, changes in economic conditions, a highly-publicized default, or changes in asset allocations by major institutional investors.

It is difficult for the Advisor to consistently protect the client's portfolio from general market risk. It is not an operating policy of the Adviser to incur the expense of hedging against changes in the value of the client's portfolio. Clients should expect fluctuations in the value of the portfolio due to general market swings, and some of these fluctuations may be sudden and unexpected.

- *Precious Metals Mining Companies Risk.* Precious metal mining companies bring specific risks to a portfolio. These kinds of stocks may tend to increase in value more quickly during periods of rising precious metals pricing, but also lose value more quickly during periods of falling precious metals pricing. Precious metals mining companies are highly dependent on the price of the relevant precious metal and may be adversely affected by a variety of economic, financial and political factors. Fluctuation in the prices of precious metals may be due to a number of factors, including changes in inflation, changes in currency exchange rates and changes in industrial and commercial demand for metals. The exploration and development of mineral deposits involve significant financial risks over an extended period of time which may not be eliminated even through careful analysis and knowledge.
- *Small- and Mid-Capitalization Companies Risk.* The Adviser's purchases of securities of small- and mid-capitalization companies bring specific risks. Historically, these company securities have been more volatile in price than larger company securities, especially in the shorter term. Such companies may not be well-known to the investing public and may not have significant institutional ownership or analyst coverage. These and other factors may contribute to higher volatility in prices. Small- and mid-capitalization companies sometimes have limitations in the diversification of product lines, management depth, financial resources and market share. Therefore, these companies can be more vulnerable to adverse business or economic developments, and as a result their securities may involve considerably more risk than securities of larger and more seasoned companies. The purchase and sale of small- and mid-capitalization company securities may have a greater impact on market prices than would be the case with larger capitalization stocks. In addition, these securities may have lower trading volumes and wider market spreads between bid and ask

prices than the shares of larger companies. Therefore, the cost of trading large amounts of these securities may be relatively higher than the cost of trading large amounts of large company securities.

- *Foreign Investment Risk.* Foreign securities involve special risks and costs. Direct investments in foreign securities may involve higher costs than investment in U.S. securities, including higher taxes, transaction and custody costs. Foreign investments may also involve risks associated with the level of currency exchange rates, less complete financial information about the issuers, less market liquidity, more market volatility and political instability. Future political and economic developments, the possible imposition of withholding taxes on investment income, the possible seizure or nationalization of foreign holdings, the possible establishment of exchange controls or freezes on the convertibility of currency, or the adoption of other governmental restrictions might adversely affect an investment in foreign securities. Currency exchange rates may fluctuate significantly, causing the investment value to fluctuate as well. A decline in the value of a foreign currency relative to the U.S. Dollar will reduce the value of a foreign currency-denominated security.

Financial market fluctuations in any country where the Adviser has investments will likely affect the value of the securities that the clients own in that country. These movements will affect the portfolio's price and investment performance. The political, economic, and social structures of some countries may be less stable and more volatile than those in the United States. The risks of foreign markets include currency fluctuations, possible nationalization or expropriation of assets, extraordinary taxation or exchange controls, political or social instability, unfavorable diplomatic developments, and certain custody and settlement risks. In addition to these risks, many foreign markets have less trading volume and less liquidity than the U.S. markets, and therefore prices in foreign markets can be highly volatile.

Foreign markets may also have less protection for investors than the U.S. markets. Foreign issuers may be subject to less government supervision. It may also be difficult to enforce legal and shareholder rights in foreign countries. There is no assurance that the Adviser will be able to anticipate these risks or counter their effects.

- *Sector Risk.* Securities of companies in the same or related businesses, if comprising a significant portion of the client's account portfolio, could react in some circumstances negatively to market conditions, interest rates and economic, regulatory or financial developments and adversely affect the value of the portfolio to a greater extent than if such business comprised a lesser portion of the client's account portfolio.
- *Credit Risk.* Lower-rated bonds present significantly higher risk of default, which is a failure to make all payments of interest and principal in a timely manner. In a default situation there is also a risk that the eventual recovery value to bondholders may be, and usually is in the case of high-yield bonds, less than the bond's full value and accrued interest. Defaults, therefore, will generally reduce the income and value of the client's portfolio.

Whether or not there is an actual default, perceived changes in a bond's credit quality can cause a significant decrease or increase in the market value of the bond. In some cases, a sudden event may dramatically alter the perceived or actual credit quality of a security.

The Adviser attempts to reduce the impact of credit risk by maintaining a diversified portfolio representing many types of issuers from different industry groups. The Advisor performs careful credit research on any security before it is purchased, and then monitors the creditworthiness of the investments for any deterioration in quality. The Advisor also attempts to identify issues that are enjoying improving credit quality and thus have appreciation potential.

- *Interest Rate Risk.* Bond prices move in the opposite direction of interest rates. Thus, a period of rising interest rates will cause a bond portfolio to decline in value, and a period of falling interest rates will cause a bond portfolio to rise in value. During periods of rapidly rising interest rates the client's portfolio could decline in value. Investors should understand that interest rate cycles can be measured in many years, and that there have been long periods of time in the past when interest rates have been rising. Such time periods will make it more difficult for the Adviser to achieve its investment goal of maximum total return.



Changes in interest rates can affect bond income as well as bond prices. The investor's monthly income will fluctuate with changes in interest rates. Falling interest rates will cause the investor's income to decline, as maturing bonds are reinvested at lower yields. Investors should understand that the current yield on the portfolio may not accurately represent its potential long-term yield. To maximize the monthly income of the portfolio, the Advisor attempts to buy longer-term bonds when interest rates are falling and shorter-term bonds when rates are rising. These adjustments can help blunt the negative effects of interest rate changes, but cannot prevent fluctuation of the portfolio's income.

- *Liquidity Risk.* The high-yield bond market is significantly less liquid than the investment-grade bond market. This creates a risk that the Adviser may not be able to buy or sell the desired quantities of high-yield bonds at satisfactory prices, and that large purchases or sales of certain bonds may cause substantial price swings in the market for those securities.

The market values for high-yield securities are more volatile than those of higher quality bonds. Under adverse market or economic conditions, the secondary market for high-yield securities could contract, causing certain of such instruments to potentially become more difficult to sell, or ultimately, illiquid. Because there are fewer dealers in the market for high-yield securities, prices quoted on certain instruments may vary widely.

Liquidity risk impacts the Adviser by placing high transaction costs and risks on portfolio turnover, and therefore may force the Adviser to keep a portion of its assets in cash or liquid securities to minimize the need for frequent portfolio trading. These portfolio effects could make it more difficult for the Adviser to achieve its investment goals.

- *Prepayment Risk.* Most high-yield bonds may be called by the issuer prior to final maturity. Client may experience reduced income when an issuer calls a bond held by the client earlier than expected. This may happen during a period of declining interest rates. Under these circumstances, the Adviser may be unable to recoup all of its initial investment and will have to reinvest the proceeds in lower-yielding securities. The loss of higher-yielding securities and the reinvestment at lower interest rates can reduce the investor's income and total return.
- *Extension Risk.* When interest rates rise, debt securities may be repaid more slowly than expected and the value of the portfolio holdings may fall sharply.
- *Defaulted or Bankrupt Securities Risk.* The Adviser may invest in securities that are in, have been in or about to enter default or bankruptcy or are otherwise experiencing severe financial or operational difficulties. Investment by the client in defaulted securities poses the risk of loss should nonpayment of principal and interest continue in respect of such securities. Even if such securities are held to maturity, recovery by the client of its initial investment and any anticipated income or appreciation will be uncertain. If an issuer of a security defaults, the Adviser may incur additional expenses to seek recovery. In addition, periods of economic uncertainty would likely result in increased volatility for the market prices of lower quality securities.

Although defaulted or bankrupt securities may already be trading at substantial discounts to prior market values, there is significant risk that the financial, legal or other status of the issuer may deteriorate even further. Access to financing is more difficult for distressed issuers, and relationships with customers and vendors often get worse as the issuer's financial posture weakens. Financial restructurings are subject to numerous factors beyond the control or anticipation of any of the parties involved, and the eventual timing and form of restructuring may be far different than anticipated by the Adviser.

Furthermore, publicly available information concerning defaulted or bankrupt securities is often less extensive and less reliable in comparison to other securities. Consequently, the market for these assets is often inefficient in comparison to securities traded on major securities exchanges and short-term volatility can be extreme.

- *Political and International Crisis Risk.* From time to time, major political, international or military crises may occur which could have a significant effect on economic conditions and the financial markets. Such crises, depending on their timing, location and scale, could cause very high volatility in the financial markets and severely impact the operations of the Adviser. A crisis could harm the value of the portfolio and harm the Adviser's ability to properly manage the client's portfolio, thereby increasing the potential of losses in the portfolio.
- *Common Stocks.* Common stock prices can fluctuate over a wide range in the shorter term or over extended periods of time. These price fluctuations may result from factors affecting individual companies, industries, or the securities market as a whole. Equity securities face market, issuer and other risks, and their values may go up or down, sometimes rapidly and unpredictably. Market risk is the risk that securities may decline in value due to factors affecting securities markets generally or particular industries. Issuer risk is the risk that the value of a security may decline for reasons relating to the issuer, such as changes in the financial condition of the issuer. While equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility. Rights of common stock holders are subordinate to those of preferred stock holders and debt holders.
- *Lower-Rated Debt Securities.* Investment in lower-rated and unrated debt securities can involve a substantial risk of loss. These securities, which are rated below investment grade, are considered to be speculative with respect to the issuer's ability to pay interest and principal and they are susceptible to default or decline in market value due to adverse economic and business developments. The market values for lower-rated securities tend to be volatile and these securities are generally much less liquid than investment-grade debt securities. When a bond issuer encounters financial distress, it may default on bond payments or file a bankruptcy petition. Defaulted or bankrupt bonds are typically replaced with new securities, either shares of stock or a new bond issue, as part of a financial restructuring or bankruptcy reorganization. The risks in these securities include: loss of income, uncertain timing of implementing a new financing plan, legal uncertainties, variations in state bankruptcy laws, difficulty of valuing the assets of a distressed company, possible management changes, and risks in the amount of and value of new securities to be received. Some companies do not recover from severe financial distress and are liquidated; these situations may result in a total loss of the client's investment in the security.
- *Convertible Securities.* Convertible securities have general characteristics similar to both fixed-income and equity securities. Yields for convertible securities tend to be lower than for non-convertible debt securities but higher than for common stocks. Although to a lesser extent than with fixed-income securities generally, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying security and therefore also will react to variations in the general market for equity securities and the operations of the issuer. While no securities investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed-income security. Convertible securities generally are subordinated to other similar but non-convertible securities of the same issuer, although convertible bonds, as corporate debt obligations, enjoy seniority in right of payment to all equity securities, and convertible preferred stock is senior to common stock of the same issuer. However, because of the subordination feature, convertible bonds and convertible preferred stock typically have lower ratings than similar non-convertible securities.
- *Real Estate Investment Trusts ("REITs").* REITs are pooled investment vehicles that invest primarily in income producing real estate or real estate related loans or interests. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. Similar to investment companies, REITs are not taxed on income distributed to shareholders provided they comply with several requirements of the Internal Revenue Code Sections. Investors will indirectly bear its proportionate share of expenses incurred by REITs in which the Adviser invests.

- *Preferred Stock.* The Adviser may invest in shares of preferred stock. Preferred shares generally pay dividends at a specified rate and generally have preference over common shares in the payments of dividends and the liquidation of an issuer's assets. Dividends on preferred shares are generally payable at the discretion of the issuer's board of directors. Accordingly, investors may suffer a loss of value if dividends are not paid. The market prices of preferred shares are also sensitive to changes in interest rates and in the issuer's creditworthiness. Accordingly, investors may experience a loss of value due to adverse interest rate movements or a decline in the issuer's credit rating. Preferred stock also may be subject to fluctuations in market value due to changes in market participants' perceptions of the issuer's ability to continue to pay dividends, more so than debt of the same issuer.
- *Restricted/Illiquid Securities.* The Adviser may invest in securities acquired in a privately negotiated transaction directly from the issuer or a holder of the issuer's securities and which, therefore, could not ordinarily be sold except in another private placement or pursuant to an effective registration statement under the Securities Act of 1933 or an available exemption from such registration requirements, which may include Rule 144A. Rule 144A securities are securities that are restricted as to resale among those eligible institutional investors that are referred to in Rule 144A under the Securities Act of 1933 as "qualified institutional buyers" (or "QIBs"). Restricted and illiquid securities are valued by the Advisor in accordance with procedures in a manner intended to reflect the fair market value of such securities.

Investments in restricted and illiquid securities involve certain risks. Investments in Rule 144A securities could have the effect of increasing the amount of the Clients' assets invested in illiquid securities if QIBs are unwilling to purchase these Rule 144A securities. Illiquid securities may be difficult to dispose of at a fair price when the Advisor believes that it is desirable and timely to do so. The market prices of illiquid securities are generally more volatile than those for more liquid securities.

- *Illiquid Instruments.* Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Adviser's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. In some cases, the relevant strategy portfolio may be contractually prohibited from disposing of certain securities for a specified period of time. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Adviser to obtain market quotations based on actual trades.
- *Market Risk.* The high-yield bond and securities market is significantly more volatile and is a much smaller market than the investment-grade bond market. The entire high-yield bond market can experience sharp and sudden swings. These swings might be caused by rapid changes in market psychology, volatility in the stock market, changes in securities regulations, changes in economic conditions, a highly publicized default, or changes in asset allocations by major institutional investors.

It is difficult for the Advisor to consistently protect clients' portfolio from general market risk. It is not an operating policy of the Adviser to incur the expense of hedging against changes in the value of clients' portfolio. Investors should expect fluctuations in the value of the portfolios due to general market swings, and some of these fluctuations will be sudden and unexpected.

- *Cybersecurity Risk.* The information and technology systems of the Adviser and of key service providers to the Adviser and its clients, including banks, broker-dealers, custodians and their affiliates, may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. For instance, cyber-attacks may interfere with the processing or execution of the Adviser's transactions, cause the release of confidential information, including private information about clients, subject the Adviser or its affiliates to regulatory fines or financial losses, or cause reputational damage. Additionally, cyber-attacks or security breaches (e.g., hacking or the unlawful withdrawal or transfer of funds), affecting any of the Adviser's key service providers, may cause significant harm to the Adviser, including the loss of capital. Similar types of cybersecurity risks are also present for issuers of securities in

which the Adviser may invest. These risks could result in material adverse consequences for such issuers, and may cause the Adviser's investments in such issuers to lose value. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or its client accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information, which may result in identity theft.

- *Cash Reserves.* The Advisor may hold a significant portion of the client's portfolio in cash or cash equivalent securities. If market conditions reduce the availability of securities with acceptable valuations, the Adviser may, for extended periods, hold larger than usual cash reserves until securities with acceptable valuations become available. As a result, you may not achieve your investment objectives during such periods. Holding larger than usual cash reserves can penalize short-term performance in rising markets, but during market declines cash reserves may allow the Adviser to purchase securities at discounted prices.
- *Systems and Operational Risk.* The Adviser relies on certain financial, accounting, data processing and other operational systems and services that are employed by the Adviser and/or by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, the Adviser and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by the Adviser and third party service providers to safeguard information in these systems, the Adviser, clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage.

#### **Item 9. Disciplinary Information**

The Item is inapplicable.

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

The Adviser does not have other financial industry activities and affiliations.

See Item 11 below for more information concerning the Adviser's practice of investing client assets in the Fund.

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

The Adviser has adopted a Code of Ethics (the "Code") that obligates the Adviser and its supervised persons to put the interests of the Adviser's clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. In addition to compliance with the Adviser's policies and procedures, the Adviser's personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Justin Harrison, CCO, by email at [jharrison@aegisfunds.com](mailto:jharrison@aegisfunds.com), or by telephone at (571) 250-0054. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by supervised persons.

The Adviser and its access persons sometimes give and/or receive gifts, services or other items to/from any person or entity that does business with or potentially could conduct business with or on behalf of the Adviser. The Adviser has adopted policies and procedures governing gifts and business entertainment, which includes disclosure of gifts and business entertainment in excess of certain de minimis thresholds and pre-clearance by the Chief Compliance Officer prior to giving/receiving gifts above a certain de minimis threshold.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), sometimes comes into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited by contract or by applicable law from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser or its related persons invest certain client assets in the Fund. Client accounts invested in accordance with the Small Cap Deep Value strategy, and the portion of Client accounts, invested in accordance with the Strategic Allocation strategy, relating to Small Cap Deep Value, may be invested in the Fund, which is managed by the Adviser utilizing a substantially similar strategy as the Small Cap Value Strategy. This practice may create a conflict of interest for the Adviser. The Adviser excludes assets invested in the Fund from the client's asset base used for purposes of determining the amount of account-level investment advisory fees payable to the Adviser. Assets invested in the Fund will be subject to other fees and expenses that are described in the Fund's prospectus.

The Adviser or its related persons invest in the same securities (or related securities, e.g., warrants, options or futures) that the Adviser or a related person recommends to clients. Such practices present a conflict where, because of the information an Adviser has, the Adviser or its related person are in a position to trade in a manner that could adversely affect clients (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients' trades). In addition to affecting the Adviser's or its related person's objectivity, these practices by the Adviser or its related persons may also harm clients by adversely affecting the price at which the clients' trades are executed. The Adviser has adopted the following procedures in an effort to minimize such conflicts:

- the Code requires the Adviser's supervised/access persons to pre-clear transactions in their personal accounts with the CCO, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its clients;
- the Code requires the Adviser's supervised/access persons to disclose their personal securities transactions on a quarterly basis and holdings on an annual basis and to provide broker confirmations of each transaction in which they engage and a quarterly certification of such transactions; and
- the Code prohibits the Adviser and or its supervised/access persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the CCO.

Personal trading by the Adviser's supervised/access persons is reviewed by the CCO and such trading is compared with trading for client accounts and reviewed against the restricted securities list.

The Adviser or a related person from time to time recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that the Adviser or related person buys or sells the same securities for its own account. The Adviser or its related persons can also participate in an aggregated order. In order to minimize the conflicts stemming from situations where the contemporaneous trading may result in an economic benefit to the Adviser or its supervised persons, the Adviser and its supervised/access persons must pre-clear transactions in their personal accounts with the CCO. As noted above, personal trading by the Adviser's supervised/access persons is

reviewed by the CCO and such trading is compared with trading for client accounts. In addition, the Adviser has adopted the aggregation policies and procedures discussed in Item 12.

## **Item 12. Brokerage Practices**

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, but are not limited to, reputation, financial strength and stability, creditworthiness, efficiency of execution and error resolution, the actual executed price and the commission, research (including economic forecasts, fundamental and technical advice on securities, valuation advice on market analysis); custodial and other services provided for the enhancement of the Adviser's portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the ability to handle difficult trades; and the operational facilities of the brokers and/or dealers involved (including back office efficiency). In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The CCO and the Adviser's portfolio manager and traders meet periodically to evaluate the broker-dealers used by the Adviser to execute client trades using the foregoing factors.

The Adviser receives research or other products or services other than execution from a broker-dealer in connection with client securities transactions. This is known as a "soft dollar" relationship. The Adviser limits the use of "soft dollars" to obtain research and brokerage services to those services that constitute eligible research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). 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 and economic data); advice from broker-dealers on order execution; and certain proxy services. 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 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.

When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the CCO and the Adviser's traders and portfolio manager meet periodically to review and evaluate the Adviser's soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination is viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of client commissions to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

The Adviser may cause clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs for clients.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions is used by the Adviser in its other investment activities, including, for the benefit of other client accounts. The Adviser does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

The Adviser has entered into client commission soft-dollar arrangements pursuant to which the Adviser executes transactions through a broker-dealer and requests that the broker-dealer make payments to another firm that provides Section 28(e) eligible brokerage and research services for providing those services to the Adviser. Research and brokerage services obtained by the Adviser using client commissions is used by the Adviser in its other investment activities, including, for the benefit of other client accounts. The Adviser does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. In determining whether to direct client brokerage to particular broker-dealers, the Adviser's investment personnel meet periodically to review and evaluate the soft dollar practices of the Adviser and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination is viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The Section 28(e) eligible research and brokerage products and services the Adviser receives does not cover expenses such as overhead, administrative expenses, exam review courses, association membership dues, legal expenses, or items such as travel, meals, hotel, and entertainment expenses associated with attending a research seminar or conference. The Adviser does have some mixed-use service for both research and administration purposes, including Bloomberg, FactSet Research Systems, and Orion Advisor Solutions. Bloomberg is a computer system that facilitates the placement of trades and allows investors to access the Bloomberg data service, which provides real-time financial data, news feeds, and messaging. FactSet is a provider of integrated financial information, analytical applications and services for investment analysis. Orion Advisor Solutions is a cloud-based software platform that provides portfolio and order management systems. The Advisor makes a best effort good faith determination of proportional use of mixed-use services, with the portion used for research paid with commission while the portion used for administration paid by the Adviser.

During the Adviser's last fiscal year, as a result of client brokerage commissions, the Adviser acquired Section 28(e) eligible brokerage and research services from broker-dealers, including research reports and market research; discussions with research analysts; advice from broker-dealers on order execution; 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.

Specific products and services received through client commissions (soft-dollar arrangements) include but are not limited to:

- Bloomberg (mixed-use, description above);
- FactSet Research Systems (mixed-use, description above);
- Orion Advisor Solutions (mixed-use, description above);
- NYSE Market Inc.;
- TMX Group;
- Investment Newsletters, Trade Magazines and Technical Journals.

Under certain circumstances, the Adviser permits a client to direct the Adviser to execute the client's trades with a specified broker-dealer. When a client directs the Adviser to use a specified broker-dealer to execute all or a portion of the client's securities transactions, the Adviser treats the client direction as a decision by the client to retain, to the extent of the direction, the discretion the Adviser would otherwise have in selecting broker-dealers to effect transactions and in negotiating commissions for the client's account. Although the Adviser attempts to effect such transactions in a manner consistent with its policy of seeking best execution, there may be occasions where it is unable to do so, in which case the Adviser will continue to comply with the client's instructions. Transactions in the same security for accounts that have directed the use of the same broker are typically aggregated.

A client who directs the Adviser to use a particular broker-dealer to effect transactions should consider whether such direction may result in certain costs or disadvantages to the client. Such costs may include higher brokerage commissions (because the Adviser may not be able to aggregate orders to reduce transaction costs), less favorable execution of transactions, and the potential of exclusion from the client's portfolio of certain foreign ordinary shares and/or small capitalization or illiquid securities due to the inability of the particular broker-dealer in question to

provide adequate price and execution of all types of securities transactions. By permitting a client to direct the Adviser to execute the client's trades through a specified broker-dealer, the Adviser will make no attempt to negotiate commissions on behalf of the client and, as a result, in some transactions such clients may pay materially disparate commissions depending on their commission arrangement with the specified broker-dealer and upon other factors such as number of shares, round and odd lots and the market for the security. The commissions charged to clients that direct the Adviser to execute the client's trades through a specified broker-dealer may in some transactions be materially different than those of clients who do not direct the execution of their trades. Clients that direct the Adviser to execute the client's trades through a specified broker-dealer may also lose the ability to negotiate volume commission discounts on batched transactions that may otherwise be available to other clients of the Adviser.

The Adviser often purchases or sells the same security for many clients at or near the same time and using the same executing broker. It is the Adviser's practice, when consistent with best execution, to aggregate client orders for the purchase or sale of the same security submitted at or near the same time for execution using the same executing broker. The Adviser will also aggregate in the same transaction, the same securities for accounts where the Adviser has brokerage discretion. Such aggregation may enable the Adviser to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. However, in cases where the client has negotiated the commission rate directly with the broker, the Adviser may not be able to obtain more favorable commission rates based on an aggregated trade. In such cases, the client will be precluded from receiving the benefit of any possible commission discounts that might otherwise be available as a result of the aggregated trade. In cases where trading or investment restrictions are placed on a client's account, the Adviser may be precluded from aggregating that client's transaction with others. In such a case, the client may pay a higher commission rate and/or receive less favorable prices than clients who are able to participate in an aggregated order. When an aggregated order is completely filled, the Adviser allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. To the extent an order is price-averaged, a client account participating in the trade may pay a higher price than if the Adviser did not aggregate the order.

If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to clients. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating clients. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations (less than 2,500 shares in equity trades or \$500,000 face value in fixed income trades.) The Advisor may purchase private placement securities for its clients periodically. Due to certain custodian trade settlement restrictions and client account eligibility determination challenges, the Advisor generally allocates private placement securities only to accounts with permitting custodians and who have provided qualifying Accredited Investor or Qualifying Institutional Buyer certifications acknowledging investor status and acquaintance with associated risk factors.

### **Item 13. Review of Accounts**

Each client account is reviewed by portfolio manager and staff of the Adviser on an ongoing basis to determine whether securities positions should be maintained in light of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each client account.

Significant market events affecting the prices of one or more securities in client accounts, changes in the investment objectives or guidelines of a particular client or specific arrangements with particular clients may trigger reviews of client accounts on other than a periodic basis.

Each client that is a separate account will receive a quarterly portfolio holdings and portfolio performance report from the Adviser. Such reports may be delivered electronically to the client in accordance with the client's agreement with the Adviser.



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

The Adviser receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the Adviser to select or recommend broker-dealers based on the Adviser’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the Adviser on behalf of its clients. Please see Item 12 for further information on the Adviser’s “soft-dollar” practices, including the Adviser’s procedures for addressing conflicts of interest that arise from such practices.

The Adviser makes cash payments to third-party solicitors for client referrals whereby the third-party solicitor receives compensation attributable to the client solicited and referred by the third-party solicitor, provided that, to the extent required, each such solicitor has entered into a written agreement with the Adviser pursuant to which the solicitor will provide each prospective client with a copy of the Adviser’s Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the solicitor and Adviser and any fees to be paid to the solicitor. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended and related SEC staff interpretations.

#### **Item 15. Custody**

Clients with managed accounts receive account statements from the broker-dealer, bank or other intermediary serving as qualified custodian. Clients should carefully review those statements.

The Adviser also sends quarterly statements directly to clients in addition to those sent by the qualified custodian. Clients should compare any quarterly statements they receive from the custodian with those received from the Adviser. Please note that there may be minor variations due to reporting dates, accounting procedures, and/or valuation methodologies.

The Adviser through the respective custodians directly debits certain of its client account(s) for the payment of investment management fees. This ability causes the Adviser to exercise limited custody over clients' funds. The custodian sends statements to clients at least quarterly showing the amounts withdrawn from their account. When a request for fee debit is sent to the custodian, a notice is also sent to the client indicating the amount billed and how it was calculated.

#### **Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser’s discretionary authority.

Prior to assuming full discretion in managing a client’s assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser’s discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. The Adviser’s portfolio manager submits an allocation statement to the Adviser’s trading desk describing the allocation of securities to (or from) client accounts for each trade/order submitted. The portfolio manager may consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) tax status and restrictions placed on a client’s portfolio by the client or by applicable law; (iii) size of the client account; (iv) nature and liquidity of the security to be allocated; (v) size of available position; (vi) current market conditions; and (vii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser’s policy to allocate investment opportunities to eligible client accounts on a pro rata basis (based on

the value of the assets each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations (less than 2,500 shares in equity trades or \$500,000 face value in fixed income trades.)

Allocations will be made among client accounts eligible to participate in initial public offerings (IPOs) and secondary offerings on a pro rata basis, except when the Adviser determines in its discretion that a pro rata allocation is not appropriate, which may include a client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and a client's status as a "restricted person" under applicable regulations.

#### **Item 17. Voting Client Securities**

To the extent the Adviser has been delegated proxy voting authority on behalf of its clients, the Adviser complies with its proxy voting policies and procedures, which seek to ensure that in cases where the Adviser votes proxies with respect to client securities, such proxies are voted in the best interests of its clients. In voting proxies, the Adviser generally votes in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated) and selection of auditors. The Adviser will vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals, the Adviser will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

The Adviser's clients are permitted to direct their votes in a particular solicitation. A client that wishes to direct its vote in a particular solicitation shall give reasonable prior written notice to the Adviser indicating such intention and provide written instructions directing the Adviser's vote in regard to the particular solicitation. Where such prior written notice is received, the Adviser will vote proxies in accordance with such written instructions received from a client, provided that such instructions are provided to the Adviser in a timely manner.

If a material conflict of interest between the Adviser and a client exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action. The Adviser does not make any qualitative judgment regarding its client's investments.

#### **Item 18. Financial Information**

This item is inapplicable.

#### **Item 19. Requirements for State-Registered Advisers**

This item is inapplicable.