

# DePrince, Race & Zollo, Inc.

## Part 2A of Form ADV

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This brochure provides information about the qualifications and business practices of DePrince, Race & Zollo, Inc. (“DRZ”). If you have any questions about the contents of this brochure, please contact us at 407-420-9903. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## Item 2. Material Changes

DRZ's prior update to Part 2A of Form ADV was in March 2022. Since the last update, DRZ has added the following language to this document:

Item 14. DRZ has engaged a third party marketing firm that is licensed outside of the United States for the purpose of introducing DRZ or DRZ products to prospective non-US investors and clients. The firm is compensated for their referral efforts.

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## Item 4. Advisory Business

DRZ provides investment advisory services on a discretionary basis as stated in the client's investment management agreement. The following equity investment strategies are offered to clients: Large Cap Value, Small Cap Value, Micro Cap Value, Small/Mid-Cap Value, Emerging Markets Value, and Long/Short Equity. Client portfolios are actively managed and are generally invested in equities subject to the investment strategy, objective selected, and any investment restrictions or guidelines imposed by the client.

In addition, DRZ provides model portfolio advisory services to certain institutional clients whereby the client receives periodic updates to model portfolios based on DRZ's investment strategy. The parties purchasing the model portfolio program have sole responsibility to implement the

investment decision and execute subsequent trade orders, if any. DRZ does not provide trading services to the model portfolio program. The model portfolio service is not actively offered.

DRZ was founded in 1995 and is primarily owned by John Race and Victor Zollo. As of December 31, 2022, DRZ managed \$4.756 Billion on a discretionary basis on behalf of approximately 59 clients.

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

Fee rates described below are per annum based on assets under management and are billed quarterly in arrears. In general, fees are not directly debited from individually managed accounts. The calculation of assets under management and fees do not take into account accrued dividends or accrued income. Prorated management fees shall be calculated in accordance with each client's specific investment management agreement. If the client's investment management agreement does not specifically address proration of fees due to cash flows, DRZ may use its discretion to prorate management fees on asset flows experienced in the client's managed account. Investment management agreements may be terminated with prior written notice by either the client or DRZ without penalty as specified in the client's investment advisory contract.

For large-cap value/income accounts, the preferred minimum account size is \$5,000,000. The fee is 0.50% of assets under management.

For small-cap value/income accounts, the preferred minimum account size is \$5,000,000. The fee is 0.90% of assets under management.

For micro-cap value/income accounts, the preferred minimum account size is \$5,000,000. The fee is 1.00% of assets under management.

For small/mid-cap value/income accounts (SMID), the preferred minimum account size is \$5,000,000. The fee is 0.65% of assets under management.

For emerging markets value/income accounts, the preferred minimum account size is \$5,000,000. The fee is 0.75% of assets under management.

For the long/short strategy, the preferred minimum account size is \$5,000,000. The management fee is 1.0% with a 15% performance based fee. Performance fees will be charged to Qualified Clients only, in accordance with Rule 205-3 of the Investment Advisers Act.

DRZ also manages accounts that have customized investment strategies with individual fee arrangements in place, as well as historical fee schedules with long-standing clients or clients with multiple investment mandates that may differ from those applicable to new client relationships. At the request of clients, DRZ will manage accounts in a manner that may not fit into one of the investment strategies described above. Investment management fees are negotiable at DRZ's discretion.

In addition to fees paid to DRZ, clients including the private funds managed by DRZ, bear the transaction costs of implementing investment recommendations, custodial fees and/or other similar fees associated with the maintenance of their accounts. Investors in DRZ's private funds indirectly

bear the cost associated with fund accounting, tax preparation, financial statement audits, insurance and other fees associated with maintaining the private fund. Investors should refer to the private fund's offering documents for additional information regarding fees and expenses.

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

For certain clients, DRZ charges an investment management fee coupled with a performance based fee. These arrangements have the possibility of substantially increasing the manager's compensation. The existence of a performance based fee may create an incentive for the portfolio manager to approve or make investments in more speculative securities or in a more speculative manner than they would otherwise make in the absence of such performance based compensation.

DRZ manages accounts with different fee structures within the same investment strategy. Differing fee structures, including performance fee arrangements, may cause an incentive to allocate investments with favorable return characteristics to clients paying higher fees. As a matter of policy, DRZ's investment professionals are prohibited from considering performance fees, management fees and/or the status of performance hurdles when allocating investment opportunities. DRZ's investment allocation procedures are designed mitigate potential conflicts of interest between client accounts during the trade execution process. DRZ's portfolio management process is designed to allocate investment opportunities among clients over time in a fair and equitable manner, taking into account the best interests and account-specific mandates of each client. DRZ strives to ensure that each recommended investment is appropriate for the particular client in light of the characteristics of the specific investment opportunity and the client's overall portfolio composition.

Performance fees are based upon unrealized appreciation of the managed portfolio. As a result, performance fees earned can be calculated on unrealized gains that clients may never materialize. Performance fees will be charged to Qualified Clients only, and in accordance with Rule 205-3 under the Investment Advisers Act.

DRZ earns fees based on the market value of securities held in the clients' portfolios at the end of a billing period. Client portfolio securities are valued by independent pricing services; however, certain securities or derivatives may occasionally require fair value estimates due to liquidity or infrequent pricing by vendors, among other factors. In these limited instances DRZ may estimate the fair value of the security. Internally valuing portfolio holdings creates an inherent conflict of interest. As a matter of practice, DRZ attempts to avoid securities that are not easily valued by public markets.

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

DRZ provides customized investment management services to trusts, charitable organizations, investment companies, pension and profit sharing plans, corporations or business entities, endowments, foundations, high net worth individuals and private funds.

Preferred minimum account size is \$5,000,000, although in certain instances, this minimum is waived.

DRZ is the sponsor and promoter of the DRZ Long Short, LP, a private pooled investment vehicle or private fund. The private fund's general partner is DRZ LS GP, LLC, a wholly owned affiliate of DRZ. DRZ LS GP, LLC is an entity solely dedicated to its role as general partner to the DRZ Long Short, LP. The DRZ Long Short, LP is managed according to the investment objectives and fee structure of the long short strategy discussed in the Fees and Compensation and Investment Strategies and Risk of Loss section of this document. Fees and terms of participating in this private fund are negotiable at the general partner's discretion.

DRZ is also the sponsor and promoter of the DRZ Emerging Markets, LP, a private pooled investment vehicle or private fund. The private fund's general partner is DRZ EM GP, LLC, a wholly owned affiliate of DRZ. DRZ EM GP, LLC is an entity solely dedicated to its role as general partner to the DRZ Emerging Markets, LP. The DRZ Emerging Markets, LP is managed according to the investment objectives of the Emerging Markets strategy discussed in the Investment Strategies and Risk of Loss section of this document. Fees and terms of participating in this private fund are negotiable at the general partner's discretion.

Some of DRZ's employees and related parties have personally invested in each of the DRZ private funds.

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

DRZ follows a value income methodology with all of its value-income strategies. This value income philosophy is based on a belief that undervalued stocks with an above-average dividend yield and the existence of an imminent fundamental catalyst provide the opportunity for increased total returns with reduced volatility. Investments are generally selected based upon three criteria: (i) low long-term relative valuation, (ii) above average dividend yield, and (iii) the existence of an imminent fundamental catalyst.

DRZ spends considerable time ensuring that client assets are invested in accordance with its investment policies and guidelines. In rare instances, DRZ may temporarily depart from these normal investment guidelines. For instance, the dividend yield of a stock may be reduced after it is purchased by DRZ, but the stock may not be immediately sold if DRZ believes it maintains strong investment characteristics.

When considering securities for investment, DRZ utilizes an investment process based upon fundamental business analysis, capital structure and liquidation analysis as well as the identification of an investment catalyst. In making its investment decisions, DRZ's portfolio managers will generally rely on internally generated analysis derived from issuer or analyst reports, issuer public filings, corporate press releases, reviews of corporate activities, conversations with the company and its competitors, prospectuses, financial newspapers and magazines and other sources. DRZ often considers research materials and analyses prepared by third parties in making an investment decision. As part of the investment analysis, DRZ may assess the quality of the security by considering financial metrics of the relevant company, the integrity and strategic vision of the company's management team and their ability to execute such strategy, as well as the attractiveness and risks of the company's industry. DRZ may consider an issuer's historical record and/or future plans related to emissions levels, pollution levels, carbon footprint, sustainability, recycling, labor practices, community responsibility and accountability, health and safety standards and practices,

board and employee diversity, compensation policies, legal /antitrust policies, and compliance procedures, among other considerations.

DRZ also considers relative or technical factors when formulating investment decisions. For example, DRZ may consider data such as the price of security relative to its historical financial ratios and peer valuations, financial ratios relative to ratios of comparable issuers, industry projections, trade volume, among other factors.

Throughout the investment process, a range of risk metrics are considered. Portfolio management teams may review and monitor sell-side coverage and sentiment, earnings estimates and results, % away from target price, price ranges, perceived down-side risk, short interest, liquidity, ownership, competitive advantage of the issuer, perceived return catalysts as well as issuer characteristics and business lines as they relate to other holdings within the portfolio.

DRZ manages several distinct investment strategies. DRZ recommends investments for each client based on the investment strategy selected by the client as well as the suitability of the investment as it relates to the client's objectives and guidelines. On occasion, different portfolio managers managing different strategies within DRZ may have opposing views on the same securities, markets or investment instruments. It is possible that different portfolio managers within DRZ recommend or have recommended the purchase of a security (long) in which other portfolio managers advising separate strategies have recommended a short position or implemented an investment strategy expressing an opposing outlook for the same or similar securities. DRZ's portfolio managers have discretion to independently implement portfolio recommendations. DRZ shall ensure that each recommendation is consistent with each strategy's investment objectives and guidelines.

All investments involve a risk of loss. Client portfolios are exposed to the capital markets which includes broad systemic risk. Portfolios may experience temporary or sustained losses due to uncontrollable or unexpected events related to severe acts of nature or weather events, war, acts of terrorism, epidemics, pandemics, governmental actions, strikes, or labor disputes, among other issues.

The Long/Short strategy managed by DRZ may not be considered diversified due to concentrations in issuers, industries, or sectors. Such strategies increase the overall portfolio's risk profile.

DRZ manages investment strategies that focus on small and micro-cap securities issued by smaller publicly traded companies. Relatively small companies may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth. Companies with newer products or services could sustain significant losses if projected markets do not materialize. DRZ holds material portions of the outstanding float of certain class of equities. Liquidations of such positions may take longer, exposing portfolios to longer holding periods.

DRZ generally invests or divests for client cash flows by executing prorated transactions across all existing securities held in the client's portfolio. Certain orders included in the prorated transaction may be contrary to the existing unsettled orders of individual securities in the same portfolio. While portfolio managers attempt to minimize such occurrences by excluding these securities from prorated transactions, it is not always achieved.

DRZ manages a long/short equities investment strategy that enters into transactions known as "short sales". In the short sale process, DRZ sells a security that the client does not own in anticipation of a decline in the market value of the security and replacement at a lower cost. Losses from short sales can be substantial. In particular, a tender offer or similar transaction with respect to a company whose securities we have sold short could cause the value of such securities to rise dramatically, resulting in rapid losses. Custodians may also require that the managed account "cover" a short position at an inopportune time causing realized losses. Short sales involve additional transaction and holding costs due to the availability of the security, interest charges, dividend accruals and/or other fees charged by custodian banks.

DRZ invests certain client portfolios in securities of foreign issuers or securities denominated in foreign currencies. Investing in foreign securities and/or securities denominated in foreign currencies may present a different or greater degree of risk than investing in domestic securities due to possible exchange rate fluctuations, possible exchange controls, less publicly available information, more volatile markets, different regulatory standards, less favorable tax provisions (including withholding taxes), war or expropriation. In addition, the Emerging Markets investment strategy invests in securities whose issuers or principal operations are associated with countries with less developed financial or legal infrastructure. Such investments may present higher degree of risk than investments associated with nations with more developed financial markets and legal systems.

The taxing authorities of certain countries in which the DRZ Emerging Markets, LP has investments withhold tax on dividends and/or capital gains related to the Fund's holdings and transactions. It may be economically unfeasible and/or operationally difficult to reclaim the taxes withheld. The General Partner expects to use commercially reasonable efforts to pursue tax reclaims in the event such pursuit is practical. It is anticipated that not all non-US taxes withheld will be reclaimed.

There can be no assurance that a client's investment objective will be achieved or that DRZ's strategies will be successful. DRZ's business is continually developing and evolving, and while it is anticipated that DRZ will invest primarily in securities that represent the selected investment strategy, DRZ has broad and flexible investment authority. A portion of each client's account may be invested in cash or cash instruments at any time.

Certain discretionary accounts will not be managed in accordance with any of the strategies discussed in this document. Certain clients may on occasion request that DRZ manage their accounts in accordance with goals and objectives that are considerably different than portfolios generally managed by DRZ. DRZ will analyze existing holdings and make investment decisions based on market conditions and the client's goals and objectives. It is expected that these accounts will have different investment portfolios compared to accounts managed according to a strategy listed above.

## **Item 9. Disciplinary Information**

DRZ and its employees have not been involved in any legal or disciplinary events in the past 10 years.

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

DRZ LS GP, LLC and DRZ EM GP, LLC are wholly owned affiliates of DRZ. These entities are solely dedicated to their roles as general partners to the DRZ Long Short, LP and DRZ Emerging Markets, LP respectively. DRZ and its employees do not have any affiliations with other financial services companies that pose material conflicts of interests.

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

To avoid any potential conflicts of interest involving personal trades, DRZ has adopted a Code of Conduct and Regulatory Compliance Manual (“Compliance Manual”) which includes a formal code of ethics, insider trading policies and procedures, and personal trading policies and procedures. DRZ’s Compliance Manual requires, among other things, that Employees:

- Act in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the financial interests of clients above their own personal financial interests;
- Adhere to the fundamental standard that one should not take inappropriate advantage of their position;
- Attempt to avoid conflicts of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Comply with applicable provisions of the federal securities laws.

DRZ’s compliance policies also requires Employees to: 1) pre-clear personal securities transactions, 2) certify all personal securities transactions and securities holdings on at least a quarterly basis, and 3) provide DRZ with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of DRZ’s Code of Ethics is available to any client or prospective client upon request by calling the telephone number listed on the cover page of this brochure.

DRZ serves as the investment adviser to separately managed accounts owned and controlled by publicly-traded companies. In the normal course of business, DRZ may recommend securities issued by these publicly-traded companies to its other clients. As a result DRZ may be deemed to have a financial interest in those securities. In addition, DRZ may recommend securities that could also be held by DRZ’s profit sharing plan in which DRZ and DRZ’s employees have a financial interest.

On occasion, employees of DRZ may personally buy or sell the same securities that are held in client accounts including securities which DRZ controls a material percentage of the outstanding



float. DRZ's Code of Ethics and employee reporting requirements are designed and implemented to mitigate the possibility of conflicts of interests that may arise from employee personal trading activity.

### **Other Items of Interest**

In the event DRZ accumulates a large portion of a company's outstanding shares in the course of managing client accounts, DRZ may be deemed an "insider" or "control person" of the issuer. As a result, DRZ may be limited in its ability to freely transact in securities of the company. DRZ has adopted policies and procedures to monitor and address such cases.

On occasion, existing clients are solicited to invest in the private funds sponsored and managed by DRZ. DRZ has a financial interest in the growth and success of these funds.

## **Item 12. Brokerage Practices**

DRZ attempts to implement securities transactions among clients in a fair and reasonable manner based on the facts and circumstances involved, the needs and financial objectives of clients, and the client's variance from the target mix of holdings. On occasion DRZ purchases initial public offerings ("IPOs") for clients. DRZ has historically utilized IPOs more frequently in the Long/Short investment strategy than in other strategies managed. DRZ's participation of IPOs in the other value oriented strategies managed is rare. Certain clients or investors may not be eligible to invest in IPOs due to regulatory prohibitions. Completely filled orders of IPOs are allocated pro rata among eligible and participating accounts. Partially filled orders may be allocated by rotating opportunities among accounts for which such allocation would fit the general weight assigned to the portfolio's holdings. This policy may lead to larger accounts not participating in cases where the total allocation is small. Because access to IPOs is often limited to certain brokers, directed brokerage accounts may not be able to participate in IPOs. DRZ will consider past participations when considering allocation for future IPO opportunities.

DRZ generally aggregates client trades. When aggregating trades, transaction fees are averaged across all clients involved in the trade. Clients may not always receive a pro-rata allocation of the aggregated trade in instances where the trade is partially filled or in cases where client imposed restrictions limit the allocation of a security bought or sold. Clients may not receive any shares if the pro-rata allocation is less than a de minimis amount or if DRZ has opted to use another fair method for allocation of the aggregated trade.

Absent specific written instructions or directions from clients, DRZ has the authority to determine the broker or dealer to be used and commission rates to be paid.

DRZ periodically reviews and analyzes brokerage relationships and trade execution. In addition to reviewing and negotiating commission rates, DRZ considers the actual handling of the order, the size of the trade relative to the market in the stock at the time, the ability of the broker to settle the trade promptly and accurately, the financial standing of the broker, as well as other factors that may be unique to the particular order. While a lower "per share" commission might be available for any given trade, DRZ considers qualitative factors described throughout this section as well as commissions when evaluating best execution.

DRZ may instruct the broker-dealer that executes an aggregate transaction to allocate or “step-out” a portion of such transaction to another broker-dealer. The broker-dealer to which DRZ has “stepped-out” the trade would then settle and complete the designated portion of the transaction and the executing broker-dealer would settle and complete the remaining portion of the transaction that has not been “stepped-out”. Each broker-dealer receives a commission or brokerage fee with respect to the portion of the transaction that it settles and completes. Step-out brokerage arrangements are negotiated and instructed by the client.

DRZ acts within the limitations placed on it by investment guidelines prepared jointly and agreed to by DRZ and the client. DRZ endeavors to obtain the best overall execution on each trade. DRZ places trades with certain brokers that provide DRZ with research and trading related services. The commissions paid to these brokers do not represent the lowest obtainable commission rates. DRZ believes the commissions paid are reasonable in relation to the benefits received.

The items received by DRZ consist of research materials used in the investment decision-making process as well as brokerage and trading services that assist in communicating, executing, allocating and settling transactions (“brokerage services”). Brokers provide DRZ with research and brokerage services that fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934. Research materials include reports or periodicals, issuer or industry specific reports, current and historical financial data of securities and issuers, index constituent data, analyst reports, among other research. In some instances the research is originated by the broker (“proprietary research”) and in other cases it is generated by a third party. In the latter case, the broker has directed a third party to provide research to DRZ or DRZ has contracted for the research and trading service and has instructed the soft dollar broker to pay for such services utilizing the accumulated soft dollar credits. Proprietary research does not have an identifiable value attributable to each separately managed account and is provided based on DRZ’s total trading activity. DRZ believes the research provided by sell side brokers is an important part of its investment decision process.

The decision to direct client transactions to a particular broker-dealer in return for research or brokerage services is primarily based on the professional opinions of the investment professional within DRZ responsible for the placement and review of such transactions. DRZ’s personnel may use their industry experience to assess the experience of the broker, the level of services provided, commissions rates, reputation, solvency, and the level of commissions paid by other investors of comparable size and type. These services are provided under formal written soft dollar arrangements or informal soft-dollar arrangements where no written agreement exists. Each broker with whom DRZ has a soft dollar arrangement utilizes varying ratios of trading to derive soft dollars credited to DRZ. Additionally, each broker applies varying ratios to convert soft dollar credits to hard dollars available for use in purchasing research and trading related products and services or when providing DRZ with proprietary research.

Commissions generated from non-directed transactions are utilized to pay for soft dollar services. The soft dollar items received by DRZ are used to manage all accounts. As a result, clients granting DRZ full discretion over broker selection pay a greater proportionate amount of their commissions towards such items than clients who do not grant DRZ with full brokerage discretion.

Certain “mixed use” items are obtained partly with client commissions. Mixed use items have both research or brokerage services, and non-research or non-trading value. These items are paid for with a combination of commissions and DRZ’s hard dollars. DRZ will pay hard dollars for the

portion of such items that DRZ determines to be unrelated to research or brokerage services. DRZ internally computes the allocation of soft dollars and hard dollars used to pay for mixed use items. Allocation of mixed use expenses creates a conflict of interests between DRZ and clients.

Clients may direct brokerage transactions to specific brokers. Clients should be aware that when they choose to direct brokerage transactions with respect to their account(s):

- 1.) DRZ does not attempt to negotiate commissions on client-directed trades (including batched transactions). As a result, clients may pay materially disparate commissions.
- 2.) In batched transactions in particular, DRZ generally will be in a better position to negotiate commissions (including volume discounts) if the brokerage is not client-directed.
- 3.) DRZ may not obtain best execution in certain transactions for the reasons stated above.
- 4.) Managed accounts of clients that direct brokerage may have different performance returns than non-directed client accounts due to the reasons stated above.

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

In most cases DRZ's value oriented investment strategies are assigned a primary and co-portfolio manager. These investment professionals are responsible for the review of their respective client portfolios. DRZ manages all accounts that participate within the same investment strategy in a similar manner with the exception of any client imposed restrictions or guidelines. Restrictions imposed by clients may include, but are not limited to: social and environmental concerns, position size, market cap, and/or an issuer's country of domicile. DRZ's compliance department, in conjunction with the operations group and a client service professional routinely review all accounts to ensure that client guidelines are respected.

Holdings reports are provided by DRZ on a monthly or quarterly basis for all accounts based on the client's preference. Reports identify all securities held in the portfolio, cash equivalents and may include cost, current market value, position weight within the portfolio and economic sector. More detailed and/or more frequent reports are available upon request. Portfolio managers continuously and regularly review all managed accounts.

DRZ does not monitor, document, file, or forward class action notices resulting from current or past portfolio holdings. Class actions are the sole responsibility of the client. Clients should consult their custodians to ensure they are receiving notifications of class actions directly. Clients should also consult their legal counsel to determine whether they should join, opt out, or submit a legal claim as part of a class action lawsuit or other legal matter.

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

DRZ receives research services from certain executing brokers at no cost to DRZ. The research provided is a benefit which DRZ would have to pay for otherwise.

While DRZ currently does not have any such arrangements, DRZ may direct trades to brokers that have referred clients to DRZ. In the event that a client is referred to DRZ by a broker-dealer, DRZ has a potential conflict between the client's interest in obtaining best execution and DRZ receiving future referrals from the broker-dealer. All trade executions implemented by DRZ are subject to the firm's best execution policy.

Employees of DRZ who refer advisory clients may be compensated for the referral. The employee's compensation does not result in an increase in the referred client's fee beyond that which DRZ would otherwise charge the client for its investment advisory services. In addition, DRZ has engaged a third party marketing firm that is licensed outside of the United States for the purpose of introducing DRZ or DRZ products to prospective non-US investors and clients. The firm is compensated for their referral efforts.

In the normal course of business, DRZ provides gifts and gratuities to various individuals or entities such as clients, vendors, consultants, and service providers. Gifts and gratuities are monitored by DRZ's compliance personnel. As a matter of policy, DRZ prohibits employees from providing gifts or gratuities with the intention of influencing client referrals.

DRZ may purchase certain products, such as performance analytic reports, from third-party consultants or broker-dealers who refer clients or are clients creating an inherent conflict of interests. Such reports are utilized by DRZ in its investment research.

## **Item 15. Custody**

All clients' accounts are held in custody by unaffiliated broker/dealers or banks. Account custodians send statements directly to the account owners on at least a quarterly basis. Account owners should carefully review their custodian statements, and should compare these statements to any account information provided by DRZ. DRZ does not maintain possession of client funds, securities or other assets. DRZ does not directly debit separately managed client accounts for management fees.

DRZ has investment discretion and management control of the assets of the DRZ Emerging Markets, LP and the DRZ Long Short, LP. As a result, DRZ is deemed to have custody of these client accounts (collectively "Funds"). The Funds each undergo an annual audit conducted by an independent accounting firm. The Funds' financial statements are prepared in accordance with generally accepted accounting principles. Audit results are distributed to participants within 120 days of the Funds' fiscal year end.

## **Item 16. Investment Discretion**

Client advisory agreements provide DRZ with discretionary investment authority. As a matter of policy, DRZ shall begin to invest client accounts immediately or as soon as practical after investment capital becomes available. Similarly, it is DRZ's policy to liquidate client holdings immediately or as soon as practical once client withdrawal instructions are received. Cash inflows or withdrawal notices received after the opening of the trading day may be acted upon in subsequent trading days. As a matter of policy DRZ does not attempt to time markets when client accounts experience inflows or withdrawals.

DRZ generally invests or divests for client cash flows by executing prorated transactions across all existing securities held in the client's portfolio. Certain orders included in the prorated transaction may be contrary to the existing unsettled orders of individual securities in the portfolio. While portfolio managers attempt to minimize such occurrences by excluding these securities from prorated transactions, it is not always achieved.

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

DRZ votes proxies on behalf of certain clients. DRZ's general policy is to vote client proxies in the interest of maximizing shareholder value. DRZ will vote in a way that it believes is consistent with its fiduciary duty, will cause the value of the security to increase the most or decline the least. Certain clients may have other considerations or mandates that direct DRZ to vote proxies in a different manner. Consideration will be given to both the short and long term implications of the proposal to be voted.

DRZ has retained the services of an independent third-party to serve as a proxy administrator. DRZ utilizes the proxy administrator to facilitate the gathering, voting and record keeping process. DRZ's proxy administrator is responsible for receiving and compiling the applicable proxies, voting the proxies in accordance with DRZ's established proxy voting policies and client considerations and properly submitting the votes. DRZ's proxy voting process calls for certain proxy matters to be reviewed individually (non-routine matters) rather than voted based on DRZ's pre-defined instruction. The proxy administrator is responsible for identifying and promptly notifying DRZ of non-routine matters. On occasion, DRZ or the proxy administrator shall vote a specific proxy in accordance with the client's written instructions. These votes may or may not be in line with the direction of the votes submitted by DRZ for other client accounts.

If DRZ or its proxy administrator determines that a material conflict of interest would occur in voting a client's proxy, DRZ's proxy administrator will work with the appropriate DRZ personnel to resolve the conflict of interest. DRZ will either: (i) contact the client(s) directly to determine any appropriate vote or action, or (ii) convene DRZ's Proxy Voting Committee (the "Committee") and determine the appropriate vote. Decisions of the Committee must be unanimous. If a unanimous decision cannot be reached by the Committee, a competent third party may be engaged at DRZ's expense. The third party will determine the vote that they believe will maximize shareholder value.

DRZ's complete proxy voting policy and procedures are memorialized in writing and are available for review upon request by a client or a prospective client. In addition, a client's complete proxy voting records are available to the client upon request. Please contact DRZ by calling the telephone number on the cover page of this brochure for questions or to request either of these documents.

## **Item 18. Financial Information**

DRZ has never filed for bankruptcy and is not aware of any financial condition that is expected to impede its ability to manage client accounts.