

# Arbiter Partners Capital Management, LLC

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Arbiter Partners Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 212-650-4660 or [jmusher@arbiterpartners.net](mailto:jmusher@arbiterpartners.net).

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

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

## **Item 2 – Material Changes**

This Brochure replaces our previous brochure and reflects our annual update to December 31, 2022, the close of our most recent fiscal year.

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#### **Item 4 - Advisory Business**

Paul J. Isaac is the founder, majority principal, and portfolio manager of Arbiter Partners Capital Management, LLC (“Arbiter Partners”). Arbiter Partners was formed in January 2007 and is the investment manager to multiple investment funds operated under the Arbiter name. However, our operations predate the formation of Arbiter Partners and our first fund was founded in 2001.

Our funds are opportunistic, investing primarily in equities, fixed income, and derivatives using a variety of long / short strategies. The goal is to maximize long-term capital appreciation. The investments are generally global in scope and are made across a range of instruments, including the occasional ETF, closed end mutual fund, and private placement. We have a global financials fund that is primarily long equities and concentrated in a single sector. We also offer special opportunity funds, which are long only and focus on investments in the securities of a single corporate complex, and accordingly, are concentrated investments involving a smaller range of instruments. As of January 1, 2023, our advised funds had approximately \$345 million under management on a discretionary basis.

At the beginning of 2013, Arbiter Partners began offering advisory services to certain large clients through separately managed accounts. These accounts pursue similar investment objectives to our funds and seek long-term capital appreciation through investment programs similar to our primary and/or special opportunity funds. They may invest in parallel to our funds. These accounts had approximately \$102 million under management as of January 1, 2023.

Arbiter Partners also provides management and certain administrative services to various accounts controlled by Mr. Isaac or his family and to certain trusts related to his family (the “Isaac Accounts”). These accounts have considerable overlap in strategies to the Arbiter funds, except that they are generally long-only, use few or no derivatives, and are willing to accept greater illiquidity, country and interim price risk.

Other than through the agreements that control our separately managed account relationships and the agreements entered into on behalf of our single investor funds, we do not generally tailor advisory services to the individual needs of a client or an investor. In the context of these agreements Arbiter Partners has agreed to modify the investment program of such accounts and funds to facilitate specific client or investor requests, and we may do so in the future.

We do not currently participate in any wrap fee programs.

#### **Item 5 - Fees and Compensation**

Management and Performance Fees. Our investment funds generally have management fees and performance allocations. Our funds have management fees of 0.35 to 1% and performance or incentive allocations or fees of 15 to 20% above a high watermark for new investors.

Contributions are generally subject to a 1-year hard lock followed by a 3- to 6-year soft lock (depending on the fund), during which withdrawals generally are subject to an early redemption charge paid into the fund (not to the management company) to compensate the remaining investors for the liquidity demands imposed by the short-term trading of the early redeeming investor. The initial incentive or performance allocation in our primary funds will be made as of the end of the hard lock-up period, and thereafter as of the end of each calendar year. The initial incentive or performance allocation for our special opportunity funds is expected to be made

when we determine that the circumstances of such special opportunity indicate that the positions should be closed and the investment proceeds distributed to the investors, or, if earlier, upon the withdrawal or redemption of an investor

Our funds have offered classes of interests with lower fee structures for legacy investors (with limited capacity for follow-on subscriptions at such lower fees), some of which include a hurdle. Our special opportunity funds have lower fee structures for investors who invest in our primary funds. We retain complete discretion to set the terms of any new classes of interests offered. Our lowest current management fees for third party accounts are in certain classes issued in our special opportunity funds, where lower management fee classes have ranged from 0.35% through 0.5% per annum and lower incentive allocation classes have been as low as 15%.

We also offer our advisory services to separately managed accounts and single investor funds, where a client or investor agrees to place under our management an amount of assets that is substantial enough to justify such separate management. These accounts have included asset based and performance fees on negotiated terms that vary significantly from those terms applied in respect of our investment funds.

Management fees are paid regardless of whether the respective fund produces positive investment return and generally are paid monthly in arrears directly from the fund or by billing the client of a separately managed account and are subject to pro ration for partial periods.

Notwithstanding the foregoing, our management fees and incentive allocations are subject to modification from time to time, including by agreement with individual clients or with individual investors, or as may be reflected in the offering materials of any investment fund with respect to such fund or any class of interests offered by such fund. We have previously waived such management fees and incentive allocations for investors who are employees, other affiliated persons and family members or estate planning vehicles of such persons.

Other Expenses. In addition to management fees, each of the funds and the managed accounts bear their own investment and operating expenses. These may include, but are not limited to: (i) expenses associated with the acquisition or disposition of investments, including brokerage and transaction costs, and the costs of any currency or other hedging transactions, if any; (ii) risk management expenses (including software licensing and consultants' fees), (iii) research and other expenses incurred in connection with evaluating or monitoring actual or potential investment opportunities, including Bloomberg and other third party research, consultants, publications, data and data services, current and historical pricing and market information and travel expenses incurred in connection therewith; (iv) financing costs, including interest and fees on margin accounts or in connection with borrowing cash or securities, including securities sold short; (v) administration expenses (including, but not limited to, fees and expenses of a third party administrator and other expenses related to middle and back office services and software necessary for trade capture and portfolio management), audit and tax preparation (including third-party tax preparation) and accounting expenses (including third party accounting services and accounting software); (vi) custody expenses, including custodial fees and bank service fees; (vii) fees and expenses related to directors and officers insurance premiums; (viii) expenses of regulatory compliance (including expenses related to various filings (or portions thereof) that Arbiter Partners is required to make as a result of managing the portfolios of its fund and other clients, such as Section 13, Section 16 and Form PF filings); (ix) class action and proxy voting services fees, including fees and expenses of Institutional Shareholder Services, Inc. (or any

replacement thereto); (x) expenses incurred in connection with reviewing and/or providing periodic reports to the investors and clients, and portfolio valuation expenses (including data feeds and third-party valuation agents); (xi) legal fees and costs (including settlement costs) arising in connection with litigation or regulatory proceedings involving a client or Arbiter Partners or its personnel in connection with the services provided to a client; and (xii) organization expenses, including, without limitation, legal and similar expenses incurred in connection with the offering of interests in a fund to prospective and existing investors.

Investment and operating expenses are incurred and paid regardless of whether the respective fund or client account produces positive investment returns. These fees and expenses are further described in our materials specific to the partnerships, which may be made available to qualified investors upon request.

Placement Fees and Sales Charges. Arbiter Partners does not charge or receive sales charges on our fund offerings or separately managed accounts, and our principals and employees are not compensated for the sale of securities or other investment products. However, certain investors or clients may be introduced to Arbiter Partners through solicitors or placement agents that do receive such compensation, which may be paid by Arbiter Partners or directly by such client or investor. Please see the section below titled “Client Referrals and Other Compensation.”

Allocation of Expenses. Any such expenses incurred by Arbiter Partners, or its affiliates on behalf of a fund or client account will be reimbursed by such fund or client account, except to the extent such reimbursement may be waived by Arbiter Partners, or such affiliate. To the extent that any fees or expenses relate to more than one client (or to Arbiter Partners or an affiliate of Arbiter Partners), Arbiter Partners makes a good-faith allocation of the expense among the entities involved and any such allocation shall be conclusive. See Item 12 below, for additional details on the use of soft dollars by Arbiter Partners.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

Please see the description in Item 5 of the structure of our performance-based fees. With respect to the funds managed by us, we have a conflict of interest between our duty to maximize profits and hence maximize any performance allocation, and our possible desire to avoid taking risks that might reduce the assets of the funds and consequently reduce the management fee payable to us. Conversely, the prospect of receiving a performance allocation may create an incentive for us to make investments that are riskier than would be the case in the absence of a performance allocation. We believe the latter risk is reduced by our principals maintaining a material portion of their personal net worth directly invested in our funds. Because the performance allocation will be based on increases in the net assets of a fund, we may receive compensation based upon unrealized appreciation as well as realized appreciation.

Because we advise the administrator of the partnerships in determining the fair value of positions whenever quoted values are not available or are deemed not to be representative of the market values, we have a conflict of interest between our responsibility to provide fair valuation advice to the respective fund, and our interest in maximizing the management fee and performance allocation payable from it. We believe, however, that in aggregate our performance allocation arrangements benefit investors by providing us as the manager with a greater incentive to manage assets well.

## **Item 7 - Types of Clients**

Our clients are our funds, which are pooled investment vehicles exempt from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”), separately managed accounts for large or institutional investors and family offices (which include, but are not limited to, a private endowment and a foundation), and the Isaac Accounts.

The investors in our funds are primarily high net-worth individuals, family offices, and charitable trusts. We also have a limited number of institutional investors, including fund-of-funds and insurance companies. Each investor must meet certain prescribed criteria, such as being an “accredited investor” as defined in Rule 501(a) of Regulation D, promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and for certain of our funds, being “qualified purchasers” as defined under the Investment Company Act. Our minimum initial investor account size is generally \$1 million, but is subject to the specific disclosures in the offering materials related to such funds, including our ability to waive such minimums in our discretion.

Our minimum account size for a managed account or single investor fund is \$25 million (which we may calculate on an aggregated basis for related accounts), however we have waived such minimum for the Isaac Accounts and may increase or waive such minimum in the future.

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

We employ a variety of opportunistic investment strategies in providing advice to our clients. With respect to our primary funds and client accounts pursuing similar strategies, we generally retain significant operational flexibility to pursue existing and new strategies as we seek to identify what we believe are favorable risk/reward relationships anywhere these may periodically arise within the universe of traded instruments – equity, fixed income and derivative. For our special opportunities funds and clients pursuing similar strategies, we generally pursue a strategy to maximize the return from a single identified opportunity, opportunity set or strategy during what we believe to be an advantageous period of time.

We usually invest with a long-term horizon, looking 1-3 years out for positions across likely economic, industry, and investment fashion cycles on a global basis. We accept mark-to-market volatility as an unfortunate inevitability if we are to reach our return goals.

We primarily apply bottom-up criteria in considering the risk-return characteristics of specific instruments, although these may take place within a broader industry or cyclical thesis. We consider instruments anywhere within a capital structure as we visualize it, use derivatives, accept significant basis risk versus analogous investments and/or are creative in our inclusion of non-traditional exposures when we believe these are available at a sufficient discount to other possible means of taking on a desired risk factor. Our perspective on risk emphasizes downside valuation, especially where we feel there is a “margin of safety” with limited long-term potential for permanent capital loss, although there may be considerable risks of near-term price volatility. We make selective exceptions for binary outcome commitments with what we consider extraordinary risk/reward characteristics. We will often invest without specific knowledge of the particular catalyst that might trigger a marked appreciation relative to current trading prices, in part because we believe the absence of such a catalyst may materially depress the current trading

price. Our view on specific investments, and our willingness to bear these risks, is influenced by our macroeconomic perspective, which may also alter our aggregate portfolio positioning. These factors generally will cause us to have greater volatility and basis risk than many of our peers and require us to have longer lock-ups and redemption cycles than may be typical.

We may engage on behalf of our fund and other clients, subject to any agreed investment restrictions, in short selling, hedging, option and derivatives trading, leveraging (including, but not limited to, margin trading and investing in derivatives) and other strategies from time to time, including new or developing strategies, in seeking to achieve the client's investment objective of maximum capital appreciation. When investing in non-US securities, in certain circumstances we may accept non-dollar denominated contributions or we may enter into currency hedging transactions concurrently or on an intermittent basis, in each case, when we deem it appropriate or advantageous to do so, however, we do not expect to enter into such hedging transactions automatically or as a routine matter. These strategies present incremental risks, as discussed below. Client accounts will at times invest in securities with relatively low prices, which have historically been subject to greater percentage price fluctuations than higher-priced securities. Notwithstanding the existence of a public market for particular portfolio investments, certain U.S. and non-U.S. portfolio investments may be thinly traded, may be subject to substantial variation in market value, or may cease to be traded at any time.

All securities investing presents the risk of loss of capital, and our funds are no exception. A fund investor should be prepared to accept losses.

*Long-Term Focus; Short-Term Volatility.* As discussed above, our focus on long-term trading strategies may, at times, expose clients and investors in our funds to significant short-term swings and high volatility, including in positions we believe have strong fundamental long-term prospects. There can be no guaranty that such long-term fundamentals will result in favorable opportunities for realizations, or gains within the investment horizon of a particular client or investor. Redemptions by an investor or from a client's account based on short-term capital needs, or a focus on short-term losses, may force the related fund or account to close out existing positions at a time when it would be disadvantageous to do so. Investors and clients should be prepared to accept significant short-term volatility.

*Short Selling.* To make a short sale, the funds must borrow the securities being sold short. A short sale will result in a gain if the price of the securities sold short declines between the date of the short sale and the date on which securities are purchased to replace those borrowed. A short sale will result in a loss if the price of the securities sold short increases. If the price of securities sold short increases, the funds may be required to provide additional collateral or to liquidate other investments to maintain short positions, which may not be at favorable prices. Short selling is often viewed as a speculative investment strategy that requires specialized skills and presents heightened risks of losses.

*Hedging.* Hedging strategies in general are intended to limit or reduce a portfolio's exposure to market risk, but, if improperly effected, may increase volatility and/or risk. Any such strategies that the funds employ may be expected to increase the funds' transactions costs, interest expense and other costs and expenses.



*Options Trading.* Stock or index options that may be purchased or sold by the funds include options not traded on a securities exchange. Options not traded on an exchange are not issued by the Options Clearing Corporation. The risk of nonperformance by the obligor of such an option may be greater and the ease with which the funds can dispose of such an option may be less than in the case of an exchange traded option issued by the Options Clearing Corporation. The funds may sell both “naked” put and call options as part of its strategy regarding individual positions. Options add incremental volatility risk to the portfolio.

*Leveraging.* Margin trading requires the pledge of certain assets as collateral, and margin calls may result in the funds being required to pledge additional collateral or to liquidate portfolio investments, which may result in selling portfolio investments at substantial losses that otherwise would not have been realized. The funds may also invest in derivatives. An investment in derivatives may expose the funds not only to market risk but also to the risk of default by the issuer. Both short selling and options strategies carry implicit leverage, and the use of leverage, whether explicit or implicit, increases volatility.

*Concentration Risk.* While the strategies pursued by our primary funds, and client accounts pursuing similar strategies, are generally subject to constraints (typically self-imposed) on position sizes intended to provide a measure of diversity in such portfolios, there can be no guarantee that such diversity will be achieved. In addition, even in circumstances where a portfolio is diversified across multiple securities, it may be concentrated in other ways, such as, but not limited to, by geographic region or country, by industry, by asset or instrument type in a manner that increases the impact of adverse events related to such areas of concentration to the portfolio as a whole. Our Financials fund is further concentrated in a single industry. The special opportunity funds and accounts trading in such strategies, have been formed to take advantage of specific opportunities and accordingly, will be deliberately concentrated in a very limited set of issuers or a single issuer, industry or instrument type. Adverse changes to such issuers, industries or instrument types may result in substantial losses in such portfolios.

*Broad Investment Mandate and Developing Investment Strategies.* Our funds and accounts have broad investment mandates and investors must rely upon our ability to identify, structure and implement investments consistent with the overall investment objectives and policies. Except as may be set forth in the offering materials, operating agreements or investment management agreement of a client, there are no other material limitations on the instruments or markets or countries in which we may pursue investments or on the specific investment strategies that may be employed. We may at times utilize new or developing investment strategies where the expected or potential exit opportunities have yet to be defined or may not materialize as anticipated.

*Foreign Currency Risk.* The accounting records of our funds are denominated in U.S. dollars and our clients and investors may have invested in U.S. dollars. Consequently, investments outside the United States or that are denominated in currencies other than U.S. dollars pose certain currency exchange risks, including restrictions on repatriation of proceeds of investments, devaluation and non-exchangeability. Officials in non-U.S. countries may, from time to time, also take actions in respect of their currencies that could significantly affect the value of client assets denominated in those currencies or the liquidity of such investments. Even where an

investor has made contributions in a non-U.S. currency that matches the currency of an underlying investment, our records may be required to reflect book gains or losses of conversion of such currency to U.S. dollars, which may or may not be realized depending on the investment program of such fund or account.

The foregoing is only a select listing of certain significant investment strategies and risks. More complete strategy and risk information is set out in the material specific to our funds, which may be made available to qualified investors upon request.

## **Item 9 - Disciplinary Information**

The firm and principals of Arbiter Partners have not been involved in any material legal or disciplinary events.

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

As already suggested, we and/or our principals may sponsor, manage or participate in other investment activities and projects unrelated to the funds' business without presenting such opportunities to the Arbiter funds. We and/or our principals also may raise capital or act as consultant for, or have other interests in, private or public companies in which the funds may invest. To the extent that we and/or our principals engage in such activities, we and/or they may receive compensation in the form of cash, securities, warrants and similar interests from these activities.

Mr. Isaac continues to act on behalf of the Isaac Accounts described above. Many of these accounts materially pre-date the founding of Arbiter. In some circumstances, the Isaac Account may pay management or administrative fees to Arbiter Partners, which handles many of the administrative details for the Isaac Accounts. In certain of these accounts Mr. Isaac has an economic or a contingent economic interest. The investments of such accounts may overlap with holdings of Arbiter and/or its clients.

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

### Code of Ethics

All our supervised persons (as defined for the purposes of the Investment Advisors Act of 1940) and principals must annually affirm and sign our Code of Ethics, which affirms our fiduciary duty to our clients. The form to be completed annually by our employees includes a listing of accounts that can hold reportable securities under SEC rule 204A-1, and we require direct duplicate statements by the employees' custodians and brokers to our Compliance Officer for reporting and tracking purposes.

In addition to the Isaac Accounts, some of which as discussed above pre-date Arbiter Partners and all of our funds, we permit personal trading as we believe that individual analysts gain

valuable experience by managing their own portfolio, and that they should be able to benefit from expressing their views once presented to our clients.

We mitigate and manage the potential conflicts in a three pronged, “trust but verify” approach. With limited exceptions (such as Treasuries or an ETF), employee trades must be cleared prior to execution. This ensures that ideas are presented first to Arbiter. However, there are various reasons why a trade might not be included in the broader portfolio, including insufficient liquidity, high or low risk, portfolio concentration or construction, unlikelihood to meet the portfolio’s return hurdle, or in the eyes of the portfolio manager, an insufficient expected return for the risk. While most requests are granted, some may initiate further research and result in incorporation of the position into the portfolio. Conflicting positions are not approved. In addition, positions must generally be held for at least 90 days, to avoid short-term trading by, and the potential distraction of, the analyst.

We electronically monitor trading using a direct feed from an employee’s brokerage accounts ensure compliance with the above. Employees must also submit an annual securities holding report to disclose personal holdings. Violations of the trading policy are reviewed with the employee, and appropriate actions taken.

Upon request, we will provide a copy of our Code of Ethics to any client or prospective client to review in our offices.

We and/or our supervised persons also may engage in various other business activities. For example, we or a supervised person may act as consultant for, serve on a board of directors or advisory board of, or have other interests in, private or public companies in which our clients may invest. In the course of those activities, we or they may receive compensation in the form of cash, securities, warrants and similar interests. While such compensation may at times be allocated to one or more clients (directly, through a management fee offset, or otherwise), that is not required and should not be expected; any such determination is in our discretion. Director fees, for example, often are retained by the relevant individual.

In addition to compensation, these roles and activities present potential conflicts of interest and are monitored accordingly. Some limitations on our clients can be inherent in these kinds of relationships. For example, investment activities undertaken on behalf of one client may give rise to investment limits, standstill agreements or similar restrictions that delay or prevent our ability to trade for another client, even when it might otherwise be desirable to acquire or dispose of the particular investment for that other client. Likewise, it is possible that information obtained in the course of these other roles or activities, including material non-public information, may be imputed to us, which also can delay or prevent our ability to trade on behalf of clients.

#### Trade Allocations, Isaac Accounts

In addition to the advice he provides to the Arbiter funds and our other clients, Mr. Isaac manages certain of the Isaac Accounts in which he may have direct or indirect interests. This may create actual or potential conflicts of interest, as Mr. Isaac may be viewed as having greater personal incentive with respect to the performance of the Isaac Accounts than that of other

Arbiter clients. We therefore have adopted policies and procedures that address such conflict of interest summarized below.

### *Allocation and Average Pricing*

Allocation procedures must be fair and equitable over time and will never be made based on an account's performance or fee structure or to preference certain accounts over other accounts. Allocations must be made in advance of trading for each security on a given day. Allocations of block or aggregated trades are made on an average price basis, unless specific advisory clients were directed to specific brokers for execution, in which cases prices may deviate from one another.

### *Allocation Policy between External Clients and Isaac Accounts*

Besides the Arbiter funds and external clients ("External Clients"), Arbiter directly manages the Isaac Accounts in which only Mr. Isaac and certain of his family members have direct or indirect interest, or where they are trustees for the accounts. This may create actual or potential conflicts of interest, as Mr. Isaac (who controls Arbiter) may have greater incentive with respect to the performance of the Isaac Accounts than that of the Arbiter funds. We therefore have adopted policies and procedures that address such conflict of interest summarized below.

While there can be significant overlap of investments, the Isaac Accounts generally have different investment objectives, strategies and constraints than External Clients, and so will typically hold different portfolio compositions. For example, the Isaac Accounts are generally long-only, able to take greater market, concentration, and liquidity risk, generally do not use derivatives, and have a different tax profile. When trading in the same names, Arbiter uses a fixed allocation ratio between Isaac Accounts and External Clients. This allocation ratio is reviewed at least annually and is based on the assets managed within each of the two groups of portfolios taking into account (1) amounts the Isaac Accounts have invested in Arbiter External Clients (which will generally be allocated to the External Client assets); (2) illiquid investments in the External Clients that limit the effective capital available for trading in those clients; (3) any other factors that may be relevant at the time. The allocation ratio between internal and external accounts will generally be rounded to the nearest 10%.

### *Allocation Rotation*

An alternative allocation process is a rotation across the various clients and accounts. We may do this in a position where volume is relatively low, or there are a large number of participating clients and we are trying to avoid *de minimus* trades. Under this process, trades for External Clients are placed first, with a rotation across the Isaac Accounts that are trading. Depending on the desired allocation, the rotation may cover multiple days for Arbiter External Clients before trading for an Isaac Account. For example, we might trade for Arbiter External Clients Monday-Wednesday, then trade for an Isaac Account on Thursday and Friday. Alternatively, we might trade for all external accounts and rotate among the Isaac Accounts. Because we are price sensitive, there may be gaps in days depending on our ability to execute the trades at the desired price. If we are rotating among the Isaac Accounts, we may allocate based on the total share

count of all the rotating accounts to ensure that, at an aggregate level, the Isaac Accounts participate on a pro rata basis.

### *Factors Considered*

Various factors may be considered for determining the daily trading and expected ending allocations, including overall portfolio construction and risk factors, available cash and relative size of the portfolios, ability to hedge, ability to hold the position, current and expected liquidity in the portfolio, availability and liquidity of the security, price, and trading volume. As a result, when trading over multiple days, the average price achieved for one account may be different from the average price realized for another account. When there are overlapping positions, we trade according to one or more of the following processes (as further described below). As we tend to be fairly price sensitive and context dependent, we will typically make decisions and allocations on a day-by-day basis. Another factor is the availability of liquidity on specific days, as certain of our clients' positions are traded infrequently or at small size. Not all orders are filled either wholly or at all.

### *Allocation Process*

Allocations on sales or reductions of positions will be pro rata with holdings for all participating accounts.

For purchases, the first step when a position is being initiated is determining for which accounts it is appropriate, with reasons documented prior to initiation. If appropriate for both Isaac Accounts and External Clients, the allocation between the two groups will be as discussed above. Allocations among appropriate External Clients will be allocated on a simplified (rounded) pro rata on AUM basis, with an adjustment factor for any accounts that can utilize leverage, which will be reviewed at least annually. These allocations may be subject to cash or other compliance limitations as needed. Once trading has started, allocation will be carried over unless and until a change order is issued and documented (see below).

As Mr. Isaac has unique insight into the various needs and constraints for the Isaac Accounts, the allocations among those accounts will be on an unsolicited, client basis in his personal capacity as a direct investment manager for the client. Consequently, these allocations and will not subject to allocation review or client appropriateness by Arbiter. All other aspects, including average pricing and the aggregate Isaac Account allocation, remain in scope for compliance review. In the event Mr. Isaac is incapacitated and no longer directing allocations among the Isaac Accounts, we will follow the same allocation process as the External Accounts.

There are situations where allocations may change to include, or remove, various accounts from trading. The most typical situation is a change in the available cash or the reaching of a desired position sizing, however there are other reasons. When a change occurs, the reasons for the change must be documented. Following the approach above for the Isaac Accounts, allocation changes among those accounts initiated by Mr. Isaac in his personal capacity do not need to document the reasons for the change; for clarity: a change of allocation to the Isaac Accounts in aggregate would be documented.

While the impact of any set of allocation and trading rules typically cannot be known with certainty ahead of time, we generally believe that the foregoing practices will operate over time more for the benefit of the Arbiter Investment Funds than for the Isaac Accounts, although we can offer no assurance of that result.

The Isaac Accounts can be said to benefit from the greater institutional scale and experience realized by Mr. Isaac from his management of the External Clients.

### Cross Trading

Arbiter does not engage in “agency cross” transactions. Nor do we often engage in more traditional cross trades in which assets are exchanged from one client to another. However, in the event that an agency cross transaction were to occur, it may only be executed in accordance with Section 206(3) of the Advisers Act if appropriate written advisory client consent is obtained (such consent may not be required for a traditional cross as opposed to an “agency cross”), proper disclosures provided, and appropriate advisory client reporting and necessary records maintained.

An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction (see Rule 206(3)-2(b)). Agency cross transactions typically may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

When we determine that it would be in the interest of some of our Client accounts to cross-trade positions we would direct such trades on the basis of readily available market pricing. Our procedure is to cross-trade these positions at the closing price of the security, or (if the closing price is not available) the mid of the bid-ask spread. For a block that is large relative to recent trading, we may use the weighted average price over the most recent period. For positions without readily available market pricing, we will estimate fair value using an approach we consider to be fair and reasonable. The approach will be documented and resulting valuation approved by both clients prior to execution.

Generally, the Isaac Accounts would not participate in such trades with Clients other than Isaac Accounts. If they were to be involved, the proposed trade may be or may be deemed a principal trade, which would receive further review as described below under “Principal Trading”. Some Clients may be deemed to be Principal Accounts if 25% or more of the beneficiaries of the account are affiliates of Arbiter, including Arbiter employees. In this case, the proposed transaction may be deemed a principal trade, which would receive further review as described below under “Principal Trading”.

Cross-trades involving Arbiter Partners QP, LP are currently not permitted, though we may update this policy by adopting appropriate policies and procedures.

## Principal Trading

Arbiter does not engage in Principal Trading for its own account, meaning it does not engage in the buying, selling, or holding of securities for its own benefit. As discussed under Cross Trading above, there may be times where different Clients have different needs, such as one having an inflow of cash while another needs to raise cash, when it might be to the benefit of both those Clients to cross-trade specific securities. In the event that the beneficial ownership of one or both of the Clients by affiliates or employees of Arbiter equals or exceeds 25% or more, such Client may be or may be deemed to be a principal account and the proposed transaction may be considered a Principal Trade.

Principal trades between Client Accounts are permitted with prior informed written consent from the Client or authorized representative from the counterparty to the Principal Account. If both parties are Principal Accounts, both parties must provide prior informed consent. Informed consent will include, at a minimum, disclosure of (1) the Principal nature of the trade, (2) valuation methodology, (3) Arbiter's role in the transaction, and (4) a discussion of the risks and conflicts inherent in the trade.

Approvals from External Clients that are Funds must be provided by an unaffiliated party, such as a Limited Partnership Advisory Committee ("LPAC"), a third party-fiduciary, in either case with authority to provide consent to Principal Trades. Alternatively, consent may be obtained from each of the partners in a Fund (on a look through basis) for the trade. At this time, the External Clients that are Funds do not have a process to establish an LPAC or authorize a third-party fiduciary to consent to Principal Trades. Until those processes and authorized bodies are in place, the only process for consent is the unanimous consent by all the partners in the Fund.

Approvals for the Isaac Accounts may be provided by Mr. Isaac in his personal capacity, as determined on a case-by-case basis.

When we determine that it would be in the interest of some of our Client accounts to engage in a Principal Trade, it would generally be executed on the basis of readily available market pricing. Our procedure is to trade these positions at the closing price of the security, or (if the closing price is not available) the mid of the bid-ask spread. For a block that is large relative to recent trading, we may use the weighted average price over the most recent period. For positions without readily available market pricing, we will estimate fair value using an approach we consider to be fair and reasonable. The approach will be documented and resulting valuation approved by both clients prior to execution.

## Redemptions in Kind

To the extent an investor wishes to make a redemption-in-kind, in other words, through the receipt of securities rather than cash, Arbiter will accommodate to the extent possible so long as other investors in the fund are not disadvantaged. For example, such a request might be made if the investor were intending to make charitable contributions with appreciated securities. Generally speaking, the distribution of appreciated securities rather than cash would defer or avoid the realization of capital gains for the remaining investors, which would be advantageous for the remaining investors.

The general criteria for evaluating a request for a redemption in-kind include (but are not limited to): the inventory of appreciated securities with the necessary maturity of the thesis and tax characteristics; transparent third party (e.g., stock exchange) pricing; the liquidity of the security, such that Arbiter could repurchase if desired, or that an investor selling the securities would not be expected to materially adversely affect the price; and the size of the redemption. The criteria will be consistently applied across time and internal and external investors. Consistent application, however, is not a guaranty of identical results. Generally speaking, requests for redemption at the same distribution date will be made pro rata with each other.

Requests for redemptions in kind should be made in conjunction with the normal redemption process. Final approval will only be near the actual redemption date, following review of the portfolio by the General Partner, and the identification of appropriate securities (if any) to distribute. In the event that the redemption is made by an employee of Arbiter, that employee shall not make the decision about what securities would be distributed.

Redemptions will be made using the closing price of the securities as of the redemption date. Actual transfer of shares may take longer to process and may depend on the timing of the striking of NAV or other factors. The market risk in this interim period is borne by the redeeming investor.

Notwithstanding the above, the offering materials of our fund clients and the investment management agreements we enter into with our managed account clients may describe additional restrictions, procedures or consent requirements applicable to or may partially or completely prohibit a client's participation in cross transactions, principal trading and/or redemptions-in-kind and such materials and agreements control with respect to such clients.

If the redemption is for an employee or affiliate of Arbiter, the redemption may be considered a principal trade, which would receive further review as described above under "Principal Trading".

## **Item 12 - Brokerage Practices**

Arbiter seeks to obtain best execution for advisory client transactions. The SEC defines this as the "execution of securities transactions for advisory clients in such a manner that the advisory clients' total cost or proceeds in each transaction is the most favorable under the circumstances". The best execution responsibility applies to the circumstances of each particular transaction and an adviser must consider the full range and quality of a broker-dealer's services, including execution capability, commission rates, the value of any research, financial responsibility and responsiveness, and size of the order, among other things.

Thus, while commission is a consideration, "best execution" relies upon the particular circumstances of a given transaction. For example, the liquidity of a stock may dictate execution with a particular broker. Also, the desire to maintain an orderly market in the security may affect the timing of the transactions involved, and thus the price.



Our soft dollar policies are guided by two basic principles: (a) all commissions paid to broker-dealers in connection with securities transactions on behalf of advisory clients are to be used for the primary benefit of our advisory clients; and (b) any arrangement involving the use of soft dollars for services and products must be consistent with Arbiter's duty to seek best execution of transactions.

#### Permitted Soft Dollar Arrangements

Under Section 28(e) of the Securities Exchange Act of 1934, provides a safe harbor under the federal securities laws for an investment adviser to pay a higher commission to a broker who supplies certain eligible brokerage and research services than we would otherwise pay to a different broker, so long as we determine that the commissions are reasonable in relation to the overall services provided. Similarly, we may also transact with brokers who pay for third-party research services. For purposes of Section 28(e), brokerage and research services include: (a) furnishing advice as to the value of the securities, the advisability of investing, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (b) furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (c) effecting securities transactions and performing functions incidental to those services (such as clearance, settlement and custody). Our policy is that all services must fall within the safe harbor of section 28(e), and all such services are paid through our prime broker's soft-dollar platform to ensure third-party review of eligibility.

#### Mixed Use Arrangements

We may also enter into arrangements with a broker-dealer, often referred to as "mixed use arrangements", to receive products or services that are used for both research and other purposes, such as administration or marketing. In these cases, the CCO, or his designee, will make a good faith effort to determine the relative proportions of the products or services that may be attributed to research and brokerage services. The portion attributable to research and brokerage services may be paid through advisory client brokerage commissions, including those of the Funds, whereas the non-research portion will be paid directly by Arbiter. The Firm will keep records to support its allocation of client commission to pay for mixed use items and will review the allocation on a yearly basis.

#### Other Relevant Factors

Depending upon the circumstances, for larger trades it may be necessary to consider a combination of the factors enumerated above. Arbiter will consider all other circumstances such as size of the trade, timing of the execution, requirement of research, lack of technology, and/or infrastructure for a given broker to accommodate the trade, or characteristics of the security that dictate the choice of broker.

#### Directed Brokerage and Brokerage Placement Policy

Investors invest through pooled limited partnerships. Therefore, as a matter of practice we do not accept client instructions for directing brokerage transactions to a particular broker-dealer.

Instead, the Firm selects broker-dealers based solely on their ability to provide best execution, as discussed above. Arbiter maintains a list of brokers that have been approved for trading securities in advisory client accounts. Only brokers on the approved list will be considered for a trade. Any exceptions must be approved by the CCO in writing.

Some Isaac Accounts have directed brokerage with respect to certain assets custodied at specific brokers. Brokerage for other accounts and clients follow the best execution policies above and are not influenced or impacted by these specific arrangements.

### Trade Errors

We view any error in the trade of a security that impacts the intended holding of a security, including without limitation, directional errors, errors in the order size, or orders with respect to the wrong security as a trade error. It is our policy to resolve trading errors as soon after discovery as reasonably practical in a manner that we have determined is in the best interest of the client. Once a potential error has been reviewed and accepted as an error, a Trade Error Report is completed. We view most types of trading errors as “ordinary course” and not compensatory (so that no client should expect reimbursements relating to them). But all trading errors are reviewed and appropriate corrective responses, which may include a client reimbursement, are considered.

### **Item 13 - Review of Accounts**

The Chief Investment Officer or another senior portfolio manager generally reviews each client account on an at least a weekly basis.

Investors in our primary funds receive monthly account statements, as well as the fund’s annual audited financial report delivered within 120 days after the end of the fund’s fiscal year. Investor letters on performance and investments are sent approximately 4 times per year. Investors in our sector and special opportunity funds receive quarterly statements, as well as the fund’s annual audited financial report delivered within 120 days after the end of the fund’s fiscal year.

Investors in single investor funds will receive statements as agreed with the investor, as well as the fund’s annual audited financial report delivered within 120 days after the end of the fund’s fiscal year. For clients of with separately managed accounts, we review the statements provided by their custodians on a quarterly or more frequent basis as provided by their custodians. Certain clients may receive additional holdings reports on a periodic basis.

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

Arbiter uses third party firms to collect assets and refer advisory clients to us. We will use only licensed broker-dealers and require written solicitation and compensation agreements that include the solicitors’ responsibilities to comply with the Advisers Act and other regulatory requirements. We conduct background checks on both the broker dealer and the individual with whom we would be working. We obtain representations and warranties, among other things, that the Solicitor has all the requisite registrations and licenses; will act consistent with all regulations, including those involving general solicitation; and will disclose fee arrangements and deliver solicitor brochures. We also request a signed disclosure statement from the investor

stating the nature of our relationship with the solicitor, the fee terms, and confirmation of receipt of our form ADV.

We are not compensated for our investment advice from a service other than the management fees, performance allocations, and for the Isaac Accounts administrative fees each as described above, except to the extent that the “soft dollar” arrangements we have described may be deemed compensation to us and to the extent we or our personnel receive and retain director, consulting or other service fees associated with an underlying investment made by a client and such fees may be deemed compensation to us or them.

### **Item 15 - Custody**

The partnerships’ prime brokers, which are generally broker-dealers of national or global prominence, custody all of the publicly traded securities, as well as select private placements held by the funds, while custodial banks hold our bank debt. Apex Group Limited (“Apex”, formerly Deutsche Bank Fund Services), our administrator, receives position reports directly from the underlying custodian, which then forms the basis of the monthly statements sent out directly from them. Apex monitors cash flows into and out of the partnerships.

On an annual basis, each partnership’s auditor independently confirms year-end positions as part of our audit process.

Custody for the separately managed account is held at a mutually agreed upon custodian of national or global prominence. Such custodian will send account statements at least quarterly directly to the client, who should carefully review such statements.

### **Item 16 - Investment Discretion**

Assets of our clients are generally invested with our full discretion and over the range of strategies described in more detail above and in our material specific for the specific fund or managed account, including the investment management agreements. With respect to our investment funds this authority is also granted in the respective operating agreements and through our subscription agreements. Investors who do not wish to grant us this authority should not subscribe to the respective investment fund. We do not accept investor limitations on our authority beyond those set forth in the limited partnership agreements or investment management agreements that govern such accounts and retain the ultimate discretion over the investments. With respect to our managed account clients, our authority is granted in the investment management agreement and other agreements with such client.

Mr. Isaac sets the terms for each relationship he maintains with the Isaac Accounts, which are also managed by Mr. Isaac on a fully discretionary basis.

### **Item 17 - Voting Client Securities**

We do not accept client or fund investor limitations on our voting authority. Nor are we aware of conflicts of interest presented by our proxy voting policies.

We have retained Institutional Shareholder Services, Inc. (“ISS Governance”) to provide advice with respect to our voting of client securities and resolution of class action opportunities.

However, the advice we receive from ISS Governance is non-binding and we may at times elect to follow or not follow such advice.

We vote the securities that the funds and our separately managed accounts hold. As we do not follow an activist strategy, most of our votes tend to be with management. We consider proposals on a case-by-case basis, voting in what we believe are the best long-term interests of our clients.

Generally, we vote for management's directors and the approval of the auditors. We tend to review in more detail compensation plans and will vote against those if we feel they are overly generous to management. We tend to vote in favor of being acquired, as this usually provides an upside catalyst to the stock and is in the best interests of our shareholders. Votes to acquire another company are considered on a case-by-case basis. Shareholder and other proposals are also reviewed on a case-by-case basis. In the event that a potential conflict of interest exists, we would seek to resolve the conflict in the best interests of our clients or abstain from voting.

Clients may contact Arbiter Partners under the phone number or email address listed on the cover page hereto to obtain information about how we voted the respective client's securities. Clients will receive a copy of our proxy voting policies and procedures upon request.

#### **Item 18 - Financial Information**

All our external client fees are paid in arrears. Management and administrative fees paid by the Isaac Accounts may be paid in advance. We confirm that we believe that there is no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients. Arbiter Partners has never been subject to a bankruptcy petition.

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

We do not believe we are required to register our firm with any state securities authorities and have not done so.