ECONOMIC BENEFITS FROM SECURITIES TRANSACTIONS

POLICY

It is Smead Capital Management’s policy not to accept research or other products or services (other than execution) from a broker-dealer or a third party in connection with client securities transactions. In the event that we begin using this practice we will follow the policy below.

RESPONSIBILITY

The Chief Investment Officer is responsible for ensuring that, when the Firm accepts research or other products or services (other than execution) from a broker-dealer or a third party in connection with client securities transactions, they are accepted in a manner consistent with the Firm’s policies and procedures.

BACKGROUND

The Firm may accept research or other products or services (other than execution) from a broker-dealer or a third party in connection with client securities transactions. Such research, products, or services can be classified as “soft dollar benefit” or “other economic benefit.”

Soft Dollar Benefits

An adviser can enter into arrangements with one or more broker-dealers whereby it receives some economic benefit in exchange for directing client transactions to that broker-dealer. These economic benefits are paid for with what are commonly referred to as “soft dollars” and are referred to as “soft dollar benefits.” In effect, the commissions paid by the adviser’s clients generate these soft dollars that are used by the adviser to pay for these soft dollar benefits.

Soft dollar arrangements present an obvious conflict of interest for the adviser. The adviser has the incentive to direct client transactions to the broker-dealer that will provide it with the most soft dollar benefits. Nevertheless, Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”) provides a safe harbor that expressly permits soft dollar arrangements provided certain conditions are met. These conditions include the requirement that soft dollars only be utilized to obtain research and provided that the commissions are reasonable in consideration of the economic benefit to be purchased with the soft dollars. If the adviser “pays up for research” but meets the requirements of Section 28(e) of the Exchange Act, the adviser will not be deemed to breach its fiduciary duty to its client even if the client pays a commission higher than the lowest commission available to obtain the research. If the adviser acts outside of the Section 28(e) safe harbor, however, it will not necessarily be deemed to breach it fiduciary duty to its clients.
Example
The following illustrates a typical soft dollar arrangement:

- The adviser enters into an arrangement with a broker-dealer where it receives soft dollar benefits contractual arrangement with a broker-dealer that provides for credits in exchange for directing client transactions to that broker-dealer;
- The adviser places a securities trade with a broker-dealer using its discretionary authority;
- The clients pay a broker-dealer for executing a securities transaction;
- The broker-dealer provides the adviser with a menu of research or related services available from various vendors;
- The adviser selects research from the menu;
- The vendor furnishes research or related services to the adviser;
- The broker-dealer receives an invoice from the vendor for services rendered to the adviser; and
- The broker-dealer pays the vendor’s bill.

Other Economic Benefits
An adviser may receive from a broker-dealer or other financial institution, without cost, computer software and related systems support, which allow the adviser to better monitor client accounts maintained at that financial institution (“other economic benefit”). The adviser may receive the software and related support without cost because it renders investment management services to clients that, in the aggregate, maintain a certain level of assets at that financial institution.

While these arrangements do not qualify as soft dollar arrangements, they present an obvious conflict of interest for an adviser. An adviser has the incentive to direct client transactions to the broker-dealer that will provide it with the most other economic benefits. If the adviser utilizes the services of a financial institution that provides the adviser with economic benefits, it will not be deemed to breach its fiduciary duty to its clients even if the clients pay a commission higher than the lowest commission available to obtain such economic benefits so long as certain conditions are met. These conditions include the requirement that such other economic benefit is in the best interest of the clients and that the benefit is disclosed to clients.

Example
The following illustrates a typical arrangement where an adviser may receive other economic benefits:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that provides for a specialized services;
- Access to block trading;
- Access to an electronic communication network for client order entry and account information;
• Software or other tools in connection with the Firm’s delivery of investment advisory services;
• Travel, meals, entertainment, and admission to educational or due diligence programs; and
• Marketing support including sponsorship of client events.

PROCEDURES

The Chief Investment Officer shall, at least annually, review the Firm’s practices regarding the receipt of research or other products or services from financial institutions to ensure that the Firm continues to follow its policies and procedures.

When the Firm accepts research or other products or services (other than execution) from a broker-dealer or a third party in connection with client securities transactions, the Chief Investment Officer shall characterize research or other products or services as either “soft dollars” or “other economic benefit.”

Soft Dollars Arrangements

When the Firm enters into any arrangements with a broker-dealer whereby the Firm receives some economic benefit in exchange for the client transactions placed by the Firm pursuant to discretionary authority, the Chief Investment Officer shall deem that arrangement a soft dollar arrangement. Where the Chief Investment Officer determines that the soft dollar arrangement is in the best interest of the Firm’s clients, the Chief Investment Officer should describe the arrangements to the Chief Compliance Officer, in writing, and the Chief Compliance Officer shall disclose such arrangements to the clients. Such disclosure may be described in the Firm’s Form ADV.

For all soft dollar arrangements, the Chief Investment Officer shall then determine whether such arrangement falls within the safe harbor provision of Section 28(e) of the Exchange Act. To qualify for the protections of the safe harbor, any arrangement must meet the following requirements:

• The soft dollars may not be used to obtain any economic benefit except for brokerage or research services;
• The primary use of the research directly assists the Firm in its investment decision-making process. If there is any doubt as to whether the research will primarily benefit clients, the Firm will pay for the research itself, not with soft dollars;
• Brokerage and research services must be provided by the particular broker-dealer to which the securities transactions were directed;
• Any commissions paid to a broker-dealer are reasonable in relation to the value of the brokerage and research services received by the Firm on behalf of its clients in accordance with the Firm’s duty of best execution; and
• The soft dollars were generated in connection with agency (and not principal) securities transactions where the Firm has investment discretion over the client account.
Research

When deciding whether a particular product or service offered by a broker-dealer in a soft dollar arrangement is “research,” the Firm will determine whether such product or service assists the Firm in the performance of its investment decision-making responsibilities. To determine whether a product or service qualifies as research, the Firm will consider:

- The exact nature of the product or service being acquired, including any components of the product or service; and
- How the Firm intends to use the product or service.

The following illustrates typical products and services that may qualify as research depending upon how the Firm will use the product or service:

- Research Reports;
- Technical analyses;
- Magazines and journals;
- Mutual fund data;
- Pricing services;
- Certain computer hardware or software;
- News; and
- Information on economic trends, political developments, and performance analyses.

Mixed-Use Products and Services

In some cases, a portion of the product or service acquired with soft dollars may be characterized as both research and non-research. In such cases, the Firm shall make a reasonable allocation of the cost of the product or service according to its anticipated use. The component of the product or service that assists the Firm in the investment decision-making process will be paid with soft dollars. Any component of the product or services that is characterized as non-research will be paid directly by the Firm.

Reports

The Chief Investment Officer will, at least annually, prepare a report (the “Soft Dollar Report”) containing the following information about each of the Firm’s soft dollar arrangements:

- The name of the broker-dealer;
- The budgeted amount of commissions to that broker-dealer (if any);
- The total amount of commissions year-to-date paid to that broker-dealer;
- The variation between the budgeted amount and actual amount (if applicable);
- Any soft dollar debit or credit balance carried over from a previous period;
- The remaining commission commitment to that broker-dealer;
• A description of products and services received from that broker-dealer, including detail that distinguishes between that broker-dealer’s proprietary products and services and third-party products and services acquired by the broker-dealer for the Firm’s clients;

• Documents setting forth the basis for allocating each mixed-use product between the client and the Firm; and

• A written description of how the soft dollar products and services assisted the Firm in its investment management functions.

Other Economic Benefits

When the Firm receives from a broker-dealer or other financial institution, without cost, any economic benefit because it renders investment management services to clients that, in the aggregate, maintain a certain level of assets at that financial institution, the Chief Investment Officer shall characterize such as an “other economic benefit.”

For all such benefits, the Chief Investment Officer shall then determine whether the benefits are in the best interest of the Firm’s clients. Where the Chief Investment Officer determines that the benefits are not in the best interest of the Firm’s clients, the Chief Investment Officer should decline the benefits on behalf of the Firm. Where the Chief Investment Officer determines that the benefits are in the best interest of the Firm’s clients, the Chief Investment Officer should describe the benefit to the Chief Compliance Officer, in writing, and the Chief Compliance Officer shall disclose such benefit to the clients. Such disclosure may be described in the Firm’s Form ADV.

BOOKS AND RECORDS

In its books and records, the Firm shall maintain records regarding any economic benefit received by the Firm from a broker-dealer or other financial institution. The Firm will document the basis for the determination to enter into each soft dollar arrangement, including that the products and services to be provided are research, that the research primarily benefits the clients, and the basis for allocating mix-used products and services in a particular way. In addition, the Firm shall maintain the Chief Investment Officer’s Soft Dollar Reports.