

## Item 12. Brokerage Practices

As an investment advisory firm, we have a fiduciary duty to seek best execution for client transactions. The SEC has indicated that among the specific obligations that flow from an advisor's fiduciary duty is the requirement to seek to obtain the best price and execution of client securities transactions where the advisor is in a position to direct brokerage transactions.

### NON-DIRECTED BROKERAGE CLIENTS

Where we have discretion over the choice of broker-dealer, as a matter of policy and practice, we seek to obtain best execution for client transactions (i.e., seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances). We maintain a list of broker-dealers with whom we may place trades for client accounts. Our Trading Oversight Committee approves additions to the list, monitors and reports on broker-dealer regulatory events monthly, and performs an annual review for each broker-dealer on the list to ensure continued satisfaction with the service being provided.

Our portfolio managers and trading personnel are responsible for selecting the brokers through which we execute client trades and negotiating associated broker commissions or yield spreads, as applicable. Our Trading Oversight Committee reviews the commission charges and bid/offer spreads applicable to client accounts monthly in order to assure itself that the costs are competitive. The lowest possible commission cost or best spread alone, however, does not determine brokerage selection. In selecting broker-dealers for our approved list, determining the specific firm to execute a portfolio transaction, and assessing the quality of execution, we consider a variety of factors, including, but not limited to:

- Best available execution price of the security
- Ability to execute trades at market on close prices (for passive equity accounts)
- Commission rate
- Size and difficulty of the order
- Access to sources of supply or market
- Financial condition
- Integrity and reputation
- Execution and operational capabilities including electronic trading (e.g. FIX)
- Knowledge of the market
- Good and timely delivery and payment on trades
- Ability to handle block trades

- Quality of brokerage services and research materials

#### SOFT DOLLAR BENEFITS

Our Trading Oversight Committee oversees the use, if any, of soft dollars, which includes a review of overall and average commissions paid to each approved broker-dealer. LSIA has no formal soft dollar arrangements. Nevertheless, LSIA often receives unsolicited proprietary research reports and other informational materials from broker-dealers with whom we trade. We consider these materials routine and ancillary to the relationship and do not include any broker-dealers on our approved list based on the materials they provide to us. Further, we believe that these materials are provided at no additional charge and do not impact the commissions we pay.

Notwithstanding the foregoing, the research we receive is a benefit that we would otherwise have to produce ourselves or pay for directly if we did not trade with these broker-dealers. Because of this, we have an incentive to select the broker-dealer based on the availability of that research, rather than based on our clients' interest in receiving the most favorable execution, and may pay commissions (or markups or markdowns) in excess of those that other brokers charge for transactional services alone. In practice, however, given the basic nature of the materials received, LSIA would not likely seek to replace any lost materials from termination of any of these brokerage relationships.

As a separate matter, since not all of our clients invest in the same market segments or use the same type of investment strategy, not all of our clients benefit equally from our use of certain research materials we receive. Nevertheless, we do not seek to allocate any such benefits proportionately across the accounts we manage.

We believe that any soft dollar benefits we receive are eligible research and brokerage services within the definition of research under Section 28(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). As such, we must determine in good faith that the amount of any commission paid is reasonable in relation to the value of the research and brokerage services provided, viewed in terms either of a particular transaction or our overall responsibilities with respect to accounts for which we exercise investment discretion. We must also determine that any research and brokerage services we receive provide lawful and appropriate assistance in the performance of our investment decision-making responsibilities.

To the extent we receive certain administrative benefits from the services provided by broker-dealers, and such benefits would not be considered research under Section 28(e) of the Exchange Act, we will make a good faith determination of the

portion the administrative benefits represent of the overall services provided, and will use our own resources to pay for such portion.

#### DIRECTED BROKERAGE CLIENTS

Many of our clients direct us to use a specific broker-dealer for all or certain types of transactions in their accounts. In these cases, we will utilize the designated broker-dealer as directed, except where impracticable or when the broker-dealer is unable to execute the desired transaction. In accordance with client direction, we will not seek better execution services or prices from other broker-dealers for that client. As a result, the client may pay higher commissions and transaction costs or receive less favorable net prices on transactions than could otherwise be the case. Clients who direct brokerage generally will not be able to participate in block trades.

While we do not request or require that a client execute transactions through a specified broker-dealer, when a client requests a recommendation, we recommend Schwab Institutional Services, Inc. a division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, for custodian and brokerage services. When recommending Schwab or any other broker-dealer, we consider their financial strength, reputation, execution, pricing and services. We do not receive any form of compensation from Schwab for recommending their services; however, investment advisors such as LSIA, whose client base includes a sufficient number of accounts using Schwab, obtain access to the Schwab Institutional Platform. The Schwab Institutional Platform is a website that provides online resources for operations and compliance personnel, as well as portfolio managers, to assist in various aspects of running an investment advisory business and servicing clients. In addition, employees of Schwab Institutional Platform companies receive newsletters regarding industry developments and are able to attend complimentary educational webinars and industry conferences sponsored by Schwab.

As stated under *Item 5. Fees and Compensation*, the brokerage commissions and/or transaction fees charged by Schwab or any other designated broker-dealer are exclusive of and in addition to our fees.

#### BLOCK TRADING

We often aggregate orders for securities transactions in such a way that a group of client accounts buying or selling a particular security will be traded in a block trade. In doing so, we strive to treat each client fairly and will not favor one client over another client. Each account that participates in an aggregated equity trade will receive an average share price and transaction costs will be shared equally on a pro-rata basis (unless a portion of the aggregated order is a "step-out" trade for a

directed brokerage client, in which case there may be additional costs charged separately to that client). For aggregated secondary market fixed income trades, we negotiate the price of the aggregated trade and each account receives that price. For new issues, the price is pre-determined. In all cases, if an aggregated order is not filled in its entirety, it will typically be allocated among participating accounts on a prorated basis, subject to account rounding conventions. However, if the partial fill is determined to be inappropriate for an account such that the prorated investment amount for a particular account would be too small to warrant the investment or result in costly per ticket brokerage charges, then that account will not receive any allocation. If a portion of an aggregated equity order remains unfilled at the end of a day, it is treated as a new transaction on the following day for purposes of determining average price.

We block trades where we believe it is appropriate and advantageous to clients. Blocking trades permits us to trade aggregated orders from multiple client accounts. Block trading also permits us to execute trades in a more efficient and timely manner and allows us to obtain an average share price for clients participating in the block. There are, however, circumstances specific to individual clients that may limit our ability to aggregate trades. For example, there may be times when price sensitivity or urgency to complete a trade differs, or there may be times when there is a limited supply or demand for a particular security. In some cases, trade aggregation may adversely affect the price paid or received by an account or the size of the position obtained or liquidated for an account.

Even within the same investment strategy, client accounts are managed independently to meet individual client needs and restrictions. At times, a portfolio manager places similar trades in numerous accounts within a single day that are not aggregated. Portfolio managers also place trades in one or more accounts that are directly opposite of trades placed for other accounts. This can occur, for example, when different portfolio management teams are rebalancing the same security, or when one account needs to raise cash while a new account is funding.

When similar trades for different accounts are presented to our trading desk simultaneously, the trading desk will complete all trades for non-directed separately managed accounts first before submitting trades for its directed brokerage clients. If additional non-directed trades are submitted to the trading desk before all directed brokerage trades have been completed, trading in the directed brokerage accounts is halted until the non-directed account trades can be placed. The order in which directed broker orders are placed is based on a list that rotates each day on which trading occurs. For example, if trades are placed today with brokerage firm A first, then with brokerage firm B and then with brokerage firm C, on the next trading day,

brokerage firm B trades will be placed first, then brokerage firm C trades, and brokerage firm A trades will be placed last.

#### TRADE ERROR CORRECTION

Our policy is to identify and correct errors that occur in handling client transactions due to LSIA's action or inaction without disadvantaging the client or any other client. When we discover an error, we act as promptly as possible to remedy the issue; however, we may consult with the affected client(s) prior to taking corrective action where we believe an alternative course of action may be preferable. In all cases, we will be responsible for any loss resulting from the error or related corrective action, regardless of when or how it is addressed. In the event the error or related corrective action results in a gain, we do not keep it.

#### TRADING OVERSIGHT COMMITTEE

The TOC was established to review and monitor our trading practices. The TOC regularly reviews best execution and directed brokerage issues, soft dollar arrangements and proxy voting guidelines, and other issues that may arise relating to trading.

As of December 31, 2019, our TOC had seven team members, including our Chief Investment Officer, Chief Investment Officer-Passive, Director of Operations, Director of Compliance, Head Equity Trader, and Head Fixed Income Trader. Our TOC has monthly scheduled meetings and is responsible for monitoring our firm's trading practices and periodically reviewing and evaluating the services provided by broker-dealers, the quality of executions, research, commission rates and overall brokerage relationships.