

# NICHOLAS INVESTMENT PARTNERS

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INSTITUTIONAL PORTFOLIO MANAGEMENT

## **FIRM BROCHURE** (Part 2A of Form ADV)

**May 1, 2018**

### **Nicholas Investment Partners**

6451 El Sicomoro Street  
Rancho Santa Fe, California 92067  
Phone: (858) 759-4545  
Fax: (858) 756-6542  
**[www.nicpartners.com](http://www.nicpartners.com)**

**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Nicholas Investment Partners (“Nicholas”). If you have any questions about the contents of this Brochure, please contact us at (858) 759-4545 and/or [www.nicpartners.com](http://www.nicpartners.com). 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.**

**Nicholas is registered as an investment adviser with Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

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

## **Item 2: Material Changes**

The purpose of this item is to inform you of any material changes since the last annual update to this brochure. Nicholas Investment Partners, L.P. (“Nicholas”) reviews and updates our brochure at least annually to ensure it current and accurate.

The following is a list of material changes from Nicholas’ brochure dated March 31, 2018.

**Item 5:** Updated to reflect changes in the standard fee schedules for various products and to update the information related to performance fees.

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## **Item 4: Advisory Business**

### ***Description of Firm and Principal Owners***

Nicholas Investment Partners, LP (“Nicholas”), headquartered in Rancho Santa Fe, California, is an investment management firm specializing in small-mid cap and convertibles investing and was founded in 2006. Nicholas currently is registered with the Securities and Exchange Commission (“SEC”) as an investment adviser and organized under the laws of the State of Delaware as a Limited Partnership (“LP”). Registration with the SEC does not imply any specific level of skill or training. Nicholas is 100% employee and majority woman-owned by the following professionals:

#### **Catherine Nicholas, Managing Partner, Chief Investment Officer**

Catherine leads the investment team and is responsible for the strategic development and day-to-day implementation of investment research, portfolio management and risk management. Catherine is the key decision-maker for US Small Cap, US SMID Cap Growth and US Growth Equity, co-lead portfolio manager for US Equity Opportunities and the backup for Convertible strategies.

#### **Art Nicholas, Partner, Advisor**

Art serves as an adviser to the portfolio management and research process as well as the firm’s business management on a part-time basis. He does not have day-to-day responsibilities in managing portfolios for the firm’s marketed strategies.

#### **John Wylie, Partner, Portfolio Manager**

John is the lead portfolio manager for Convertibles and Convertible Arbitrage and the co-lead portfolio manager for US Equity Opportunities. He is also the backup for US Small Cap, US SMID Cap Growth and US Growth Equity strategies.

#### **Lisa Wheatley, Partner, Senior Research Analyst/Portfolio Manager**

Lisa is the lead portfolio manager for Healthcare Opportunities. She also contributes to the investment team’s fundamental research and due diligence process as a specialist in the healthcare sector.

#### **Alexander Reison, Partner, Trader**

Alex is responsible for the implementation of the firm’s Trading function.

#### **Laura DeMarco, Partner, Director of Client Service**

Laura is responsible for servicing the firm’s existing clients and communicating timely insights on the firm’s investment strategies.

#### **Tammy Wiseman, Partner, Client Service & Marketing Officer**

Tammy is responsible for implementing the firm’s client service and marketing programs as well as providing client service to investors and their consultants.

#### **Chris Siriani, Partner, President/Chief Operating Officer/Chief Compliance Officer**

Chris oversees the operational management of the firm including investment operations, technology and finance. He also serves as the firm’s Chief Compliance Officer responsible

or the establishment and enforcement of the firm's compliance program, ensuring adherence to client guidelines and regulatory requirements.

NIP 3, L.P. owns 99% of the firm which is the entity the above partners have direct ownership. A 1% ownership interest in the firm is held by Nicholas Investment Partners, LLC, which is the General Partner of Nicholas Investment Partners, L.P. Nicholas Investment Partners LLC is 100% owned by Catherine Nicholas.

As of December 31, 2017, our total discretionary assets under management were \$1,458,440,959. In addition, we advised and additional \$28,249,644 in non-discretionary assets though model portfolios provided to program sponsors of Unified Managed Accounts ("UMA" accounts as discussed below).

### ***Investment Advisory Services Offered***

Nicholas offers discretionary and non-discretionary investment management services to various clients including institutional separate accounts, trust, estates, individuals, registered investment companies, private funds and UMA programs.

### **Institutional and Other Separate accounts**

Nicholas's institutional separate accounts are generally managed in one of five strategies, the fees and terms of which are negotiated with Nicholas and its clients. Nicholas will accommodate client specific investment restrictions which are generally outlined in the individual investment management agreements or other documents outlining the investment objectives of the account.

**US Small Cap:** Generally invests in US traded securities whose issuers have a market capitalization within the range of the small-cap growth benchmark, the Russell 2000 Growth Index.

**US SMID Cap Growth:** Generally invests in US traded securities whose issuers have a market capitalization within the range of the SMID-cap growth benchmark, the Russell 2500 Growth Index.

**US Growth Equity:** Generally invests in US traded securities whose issuers have a market capitalization within the range of the mid-cap growth benchmark, the Russell Midcap Growth Index.

**US Equity Opportunities** (*formally Concentrated US Equity*): Generally a concentrated strategy comprised of 40 – 60 securities across all market capitalizations. The strategy may invest up to 25% of the portfolio in ADRs and non-U.S. securities on local and U.S. exchanges.

**Healthcare Opportunities:** Healthcare Opportunities is a best-ideas strategy primarily investing in companies engaged in the healthcare sciences sectors across all market capitalizations.

**Convertibles:** A diversified strategy investing a broad universe of U.S. convertible securities, many of which are small to mid-cap companies. We prefer to invest in convertible securities offering an asymmetric risk/return profile where we participate more on the upside than the

downside based on modeling of the security's terms, equity sensitivity, interest rate changes, etc.

**Convertible Plus:** A diversified strategy investing a broad universe of U.S. convertible securities, many of which are small to mid-cap companies. We prefer to invest in convertible securities offering an asymmetric risk/return profile where we participate more on the upside than the downside based on modeling of the security's terms, equity sensitivity, interest rate changes, etc. The strategy generally utilizes leverage up to 2.5 times assets under management.

**Convertible Arbitrage:** An absolute return strategy that typically pairs a long convertible bond position with a corresponding short position on the underlying company's equity. The team uses an actively managed hedge strategy to seek a consistent positive rate of return with lower volatility than equities. In general, it expects to deliver mid-to-high single digit returns in normal market environments, over a market cycle, typically five years.

Nicholas manages client assets on a discretionary basis based upon the client's selected strategy and their particular investment objectives as well as other reasonable restrictions as outlined by the client in an investment policy statement or investment management agreement. The client is responsible for informing Nicholas of any changes to the client's investment objectives, individual needs and/or restrictions. In addition, Nicholas does not assume any responsibility for the accuracy of the information provided by clients.

Clients establishing separate accounts may deposit their funds with either a brokerage firm or a custodian bank of their choice.

Nicholas also manages several accounts for Nicholas' principals and their families according to customized investment guidelines. In some cases, these accounts are traded alongside of client portfolios in similar strategies. In these cases, the accounts are generally traded in a block transaction ensuring all eligible accounts receive the same average price, execution and service. **Item 11** discusses these accounts in more detail.

### **Registered Investment Companies and Private Funds**

Nicholas provides investment adviser services, as a sub-adviser, to unaffiliated registered investment companies. Nicholas does not recommend or purchase the sub-advised registered investment companies for its other clients. The investment objectives, fees, expenses, risks and other important information are outlined in their prospectuses and related documents.

Nicholas also provides investment advisory services to two private funds for which Nicholas is the General Partner. The investment objectives, fees, expenses, risks and other important information are outlined in the Confidential Offering Circulars, Limited Partnership Agreements and Subscription Agreements.

### **Wrap Fee Accounts (“Wrap”)**

Nicholas does not currently offer its strategies through any discretionary wrap-fee programs.

### **Non-Discretionary Advisory Services/Unified Managed Account Models (“UMA”)**

Nicholas provides various model portfolios as part of various UMA programs. The models are used by the UMA Program Sponsor to manage their client portfolios for which they maintain full investment discretion. Nicholas is responsible for maintaining the models only and has no discretion over the accounts or their trading, and therefore does not consider the individual needs of the program clients.

Nicholas does not have a relationship or agreement with the UMA program clients and does not receive any specific client information from the UMA Program Sponsor. The UMA Program Sponsor retains full discretion on whether to invest their UMA clients' assets using the model portfolios. The UMA Program Sponsor, based on the information it obtains from its clients, will determine the suitability of the investment program for the client and their specific circumstances.

## Item 5: Fees and Compensation

Nicholas is strictly a fee-only investment management firm. Nicholas bases its investment management fees on a percentage of assets under management and/or the performance of the account.

Nicholas may, at its discretion, charge different fees for different accounts and may agree to aggregate assets for related accounts for fee calculations. Nicholas, in its sole discretion, may waive its fee and/or charge a lesser investment advisory fee based upon various criteria (e.g., historical relationship, type of assets, account complexity, anticipated future asset growth, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, investment vehicle, "most favored nation" agreements, etc.).

### Institutional and Other Separate Account Fees

Compensation for separate accounts generally consists of an annual fee based upon a percentage of the assets under management, which is generally payable quarterly in arrears. Fees may be adjusted for contributions or withdrawals during the billing period. If an account is terminated, fees will be prorated for the partial quarter.

#### Standard Fee Schedules:

US Small Cap	US Growth Equity	US Equity Opportunities	US SMID Cap Growth
First \$50M 1.00%	First \$25M 0.80%	0.85%	First \$25M 0.95%
Next \$25M 0.85%	Next \$25M 0.75%		Next \$25M 0.85%
Next \$25M 0.75%	Next \$50M 0.65%		Next \$50M 0.75%
Thereafter 0.65%	Thereafter 0.55%		Thereafter 0.65%

Healthcare Opportunities	US Convertibles	Convertible Plus	Convertible Arbitrage
1.00% with 10% Performance Fee	0.75%	1.25%	1.00%

Nicholas will typically waive a portion of or in some instances the entire management fee for accounts related to Nicholas or its principals.

Nicholas may negotiate performance fees for certain products or Qualified Clients. The performance fees are generally accrued monthly and paid annually in arrears. Performance fees can have significantly larger impacts on net performance than standard asset based fees. Please see **Item 6** for additional information on performance fees.

### **UMA Model Portfolio Fees**

Under sub-advisory agreements, the Program Sponsors generally pay Nicholas a quarterly fee, in arrears, for its investment advisory services. Nicholas does not solicit or require clients to pay fees in advance. The fee is generally between 0.30% to 0.50% of the assets Nicholas manages under the program depending on the size of the program, services performed by the Program Sponsor and the product. If an account is terminated, any unearned fees will be returned to the client. The fees paid to Nicholas will generally be a portion of the total fee charged to the client by the Program Sponsors. For more information regarding the program please refer to the Program Sponsor's Form ADV Part 2A, Appendix 1.

In evaluating a UMA program arrangement, a client should recognize that brokerage commissions for the execution of transactions in the client's account are not negotiated by Nicholas. Transactions within the Program Sponsor are generally affected "net of" (*i.e.*, without) commissions. A portion of the UMA fee is generally considered as being in lieu of brokerage commissions. Transactions for UMA client accounts will generally be affected by the Program Sponsor with brokers selected by the Program Sponsors. Nicholas generally has no ability to select brokers and dealers and therefore the duty to seek best execution belongs to the Program Sponsors.

### **Registered Investment Companies and Private Funds**

Nicholas acts as a sub-adviser for various registered investment companies that generally charge a management fee for their services as investment managers. As sub-adviser, Nicholas' fee is calculated and paid monthly in arrears by the investment adviser of the mutual fund. If Nicholas purchases a mutual fund in its investment strategies, the fees charged by the fund are in addition to the fees paid by you to Nicholas.

The investment management fees received by Nicholas for managing the private funds are described in the fund's private offering memorandum and other subscription documents. The fees are calculated by the funds administrator and deducted by Nicholas quarterly in advance.

### **Other Fees, Expenses and Charges**

In addition to Nicholas' advisory fees, there may be other fees or expenses charged to clients by their custodians, broker-dealers or other service providers. Such fees may include custodian fees, brokerage fees, transaction or ticket charges or taxes, among others. Please see **Item 12** for a description of Nicholas' brokerage practices.

### **Termination of Agreement**

Nicholas may terminate the investment management agreement with written notice as outlined in each client's agreement. Clients have the ability to terminate the agreement immediately upon written notice to Nicholas. Clients are not charged a termination fee. Clients are generally charged



management fees through the termination date and any unused portion of fees collected in advance will be refunded within 120 days.

### **Gifts and Entertainment**

Occasionally, various third-party service providers such as brokers, consultants, administrators, or others may provide Nicholas and its employees non-cash gifts or entertainment. Nicholas has specific policies and procedures that limit, monitor and document such gifts and entertainment.

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

Nicholas may accept performance-based fees from Qualified Clients. Nicholas may manage accounts that pay a performance-based fee and accounts that pay an asset-based fee in similar or different strategies. The side-by-side management of performance-based fee accounts and asset-based fee accounts may present various conflicts of interest. Nicholas may have an incentive to favor accounts with performance-based fees which could increase fees paid to Nicholas.

Nicholas' principals and their families have significant beneficial ownership in various accounts that are managed side-by-side with our clients' accounts. The management of these accounts side-by-side with our client accounts creates certain conflicts of interest.

The management of performance based accounts and accounts beneficially owned by Nicholas' principals create potential conflicts of interest for Nicholas and its supervised persons including, but not limited to:

- the incentive to allocate profitable trades to the accounts with beneficial ownership or that may be subject to performance based fees;
- the incentive to allocate less-profitable trades to the accounts without beneficial ownership or that are not subject to performance-based fees;
- the incentive to allocate higher risk investments to accounts subject to performance fees

Nicholas has implemented procedures intended to prevent the firm or its employees from favoring accounts beneficially owned or subject to performance-based fees. To mitigate these various conflicts of interest, Nicholas has implemented formal trade allocation and trade rotation processes. When possible, security orders are blocked or aggregated across accounts and strategies and allocated on a pro-rata basis. Nicholas utilizes a formal trade rotation process to facilitate a structured and repeatable process that Nicholas believes will provide all clients with equal access to the markets over time. Trade allocations and trade rotation orders are validated each day for every trade by Operations. Any variances from the expected pro-rata allocations or rotations are researched, documented and reviewed by Compliance. See **Item 12** for additional information. Certain conditions may cause Nicholas to vary the portfolio holdings, the timing or size of trades among various accounts, even within a given strategy. Availability of cash, market conditions, varying platforms, directed brokerage, and client restrictions among other factors can cause portfolios to differ slightly over time. The detailed policies are designed to be equitable to all clients over time and are outlined in our Code of Ethics which is available on request.

## **Item 7: Types of Clients**

Nicholas generally provides investment advice to individuals, banks or thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities, UMA accounts and private investment vehicles. Client relationships vary in scope and length of service.

Nicholas also provides model portfolios to the program sponsor of various UMA programs on a non-discretionary basis. The models are provided to the UMA program sponsor who in turn has discretionary authority over how the models are used for each of their clients.

Generally, account minimums depend on the investment vehicle, size of account and complexity.

### **Institutional and Other Separate Accounts**

The minimum account size is generally \$5 million in assets under management. Nicholas reserves the right to waive institutional account minimums at its sole discretion.

### **Registered Investment Companies and Private Funds**

Nicholas provides sub-advisory services to various investment companies. The account minimums for these accounts are described in the registration statements of those funds.

Nicholas currently manages two private funds. The details regarding minimum account sizes, fees and other important information are outlined in the private offering memorandum and other subscription documents.

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

### *Methods of Analysis*

#### **Investment Philosophy**

Nicholas Investment Partners believes long-term success in investing in dynamic, growing companies results from identifying companies meeting the following three criteria:

- **Positive Change:** Successful investments are typically growing companies that manage change advantageously and are poised to exceed expectations. Sources of positive change may include new products and services, competitive advantage, industry dynamics, regulatory change, a new business model or management change.
- **Sustainability:** Positive change leading to accelerating growth must also be sustainable and supported by the company's long-term revenue and earnings potential, financial strength and quality management.
- **Timeliness:** The timeliness of investment is confirmed by evaluating the relative price strength of the stock and industry, liquidity, institutional sponsorship, and market sentiment factors affecting the company.

Securities meeting the firm's investment philosophy are generally distinguished by revenue and/or earnings acceleration, upward earnings revisions, a well-executed business plan, favorable competitive positioning, increasing market share and a skilled management team.

Additionally, attractive convertible securities are those where the issuer's credit structure is sustainable and where the convertible security has an asymmetrical reward/risk profile. In the case of Convertible Arbitrage, we also look for mispricing opportunities due to change in credit spreads and/or volatility.

#### **Multi-dimensional Research**

Conviction in our investment thesis is integral to our disciplined, multi-dimensional research process. We combine the power of a proprietary multi-factor quantitative research engine with the fundamental insights of our experienced investment team as well as our extensive network of industry contacts. We encourage a vigorous exchange of ideas and insights to examine and challenge each investment candidate.

#### **Disciplined Portfolio Construction**

Portfolios are actively managed to continually drive to the strongest investment ideas. Position sizes are based on the conviction in the investment thesis of each company relative to other portfolio holdings and risk exposures. Early warnings signs that suggest deterioration in company fundamentals or earnings strength lead to timely sell decisions.

#### **Our Approach**

We employ a team approach to research for our equity and convertible strategies, driven by experienced investment professionals to identify and validate our investment ideas and to manage

portfolios. The investment team sits together in an open-office environment sharing information and challenging existing holdings with new ideas. They share in-depth research from their thorough analysis of companies in the portfolio and prospective holdings. This structure facilitates daily information flow on companies held in the portfolios or new ideas being followed by the investment team.

Our investment team adheres to a bottom-up research process to identify attractive investment opportunities meeting its investment philosophy criteria. The team believes in combining the discipline and rigor of quantitative tools with insight of traditional fundamental research to find companies benefiting from positive change and poised to exceed market expectations. The firm specializes in small- and mid-cap companies, the largest and most inefficient area of the convertibles market.

### **Idea Generation**

To identify potential investment candidates, the team leverages its internally developed, bottom-up quantitative research model to first identify companies that meet our equity investment philosophy of positive change, sustainability and timeliness. Those with high alpha scores within the research model undergo rigorous traditional fundamental analysis by the investment team to confirm that the investment thesis will likely lead to acceleration of revenue and earnings growth, and, therefore, higher valuations.

On a weekly basis, the model generates a new research list, a ranking of all the securities in each investment universe. The investment team formally meets weekly to review and prioritize the top 50 ranked issues identified by the research model. Current portfolio holdings are also monitored by the research model and those that move lower in ranking undergo additional due diligence. In this way, the quantitative model assists in moving the portfolio toward strength, identifying both potential buy and sell candidates.

### **Fundamental Research**

The best ideas from the model are closely examined to determine whether they meet the firm's equity investment criteria of positive change, sustainability and timeliness. For our convertible strategies, the team will also validate the issuer's credit structure is sustainable; and whether the convertible security has an asymmetrical reward/risk profile. Each day the team collaborates on fundamental research and discusses new information on securities and industries they follow to determine if there is a potential impact on the portfolio.

The fundamental research process incorporates management discussions, deeper reviews of the company's financial statements as well as competitive and market share analysis. The team augments their research through their external network of analysts, relationships built over the last 30+ years, to cross-verify and challenge the investment premise of each company they follow.

A competitive distinction is the experience of the senior members of Nicholas' investment team, who have been following many of these companies since they came public over the last 25+ years. They often meet with company management and industry analysts to evaluate the management's credibility and track record; the critical factors determining the success of the company's business plan; industry dynamics; competitors; etc.

## Security Analysis

Rapid changes at the company level that are not yet fully understood by Wall Street analysts—a corporate turnaround, change in management, better sales of products or services, changes in demand, or size of end markets—often create a disconnect between actual and forecasted earnings and the current stock price. This creates opportunity for our equity strategies to invest in companies whose stock price does not yet fully reflect its full earning potential.

A key part of our fundamental research process is reviewing and challenging the assumptions in growth forecasts of the company and the industry, and questioning experienced external analysts to better understand a security's relative valuation. Companies meeting our investment criteria of positive change and sustainability of that change typically produce revenue and/or earnings higher than expectations. Ideally, the company's quarterly earnings announcement not only beats current quarterly estimates, but also raises guidance for future revenue/earnings growth.

Securities meeting the criteria are generally distinguished by revenue and/or earnings acceleration, upward earnings revisions, a well-executed business model, favorable competitive positioning, increasing market share, and a strong management team.

## Convertibles Investment Philosophy

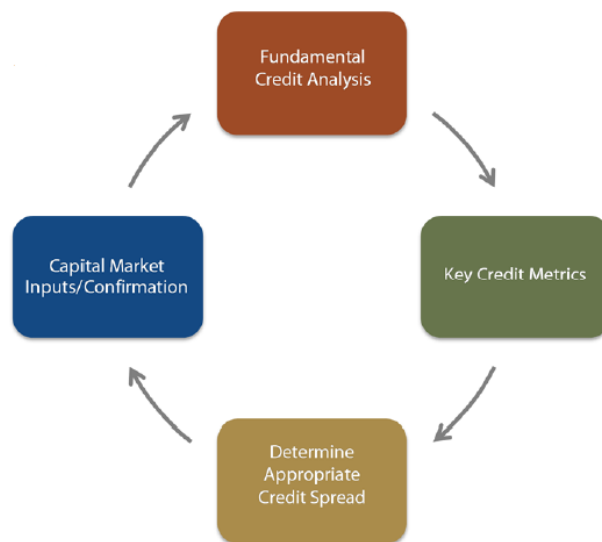
Nicholas Investment Partners believes long-term success in investing in a convertible strategy results from:

1. Maximizing the equity optionality (i.e., change in value of conversion feature) of companies meeting the three tenets of its equity investment philosophy—those demonstrating positive change that leads to earnings and/or revenue acceleration with sustainable business fundamentals and timeliness of investment;
2. In-depth credit analysis to confirm cash flows and drive credit spread assumptions;
3. Identifying attractive convertible securities that have:
  - Asymmetrical risk/reward profiles and compelling valuations,
  - Mispricing opportunities due to change in credit spreads and/or volatility; and

## Credit Analysis (Convertible strategies)

After the team has validated the strength of a company's equity investment thesis, credit analysis is important to confirm the company's ability to fulfill its obligations and commitments to creditors and make relative valuation assumptions on the company's securities. The team will assess the strength of a company's cash flows, identify current and forecasted financial needs, and evaluate its capital structure to determine the overall health, quality and flexibility of the company.

The team examines a company's overall credit profile, balance sheet, income statement, cash flows and obligations, to determine the strength of the company's financial position and liquidity. The



objective is to confirm the confidence level in the company's ability to finance its growth objectives and meet its future financial needs. Further, the team identifies a credit spread profile for each company.

### **Security Analysis (Convertible Strategies)**

Security analysis is a critical part in the investment process to determine an individual security's relative attractiveness given inputs from the investment team's credit analysis. Credit spread and volatility assumptions are used to help the team identify fair value estimates of a particular security. The team also evaluates the specific convertible issue in relation to existing and outstanding debt in terms of its relative pricing and its position in the overall capital structure. Finally, using its option-adjusted spread and volatility assumptions the team determines if the convertible security is relatively rich or cheap.

Additionally, security analysis is used to identify convertible securities with an asymmetrical risk/reward profile—those the team believes will participate in a greater degree of the upside of the common stock than the downside.

### **Ongoing Due Diligence**

The investment team formally meets on a weekly basis to review changing dynamics to current portfolio holdings and to review new—perhaps more compelling—ideas identified by the research list generated from the firm's quantitative research model. As portfolios are managed fully invested, any recommendation to buy a new holding will typically be accompanied by a recommendation of position to sell.

As a growth investor, we believe having the discipline to sell is as important as being able to identify new ideas. The investment team will liquidate a holding if its investment thesis has been realized and there is a more attractive idea to purchase; if the investment thesis breaks down and no longer offers a compelling risk/reward; if the technical around the stock's trading deteriorate and are not explainable; and, lastly, if the stock appreciates to 2x the market capitalization of the benchmark.

The team also reviews portfolio attribution at a sector/industry and security level to monitor key contributors and detractors to portfolio performance. Daily, monthly, quarterly and annual attribution reports are reviewed to help gauge the quality of internal research. On an ongoing basis, with a formal review performed quarterly, the investment team also reviews the quality of the external research network. They also review Axioma's risk models to monitor intended and potentially unintended risks in the portfolio as well as any anomalies requiring additional research.

### ***Investment Strategy***

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time with written notice. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy.

**US Small Cap:** Generally invests in US traded securities whose issuers have a market capitalization within the range of the small-cap growth benchmark, the Russell 2000 Growth Index.

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**Convertible Plus:** A diversified strategy investing a broad universe of U.S. convertible securities, many of which are small to mid-cap companies. We prefer to invest in convertible securities offering an asymmetric risk/return profile where we participate more on the upside than the downside based on modeling of the security's terms, equity sensitivity, interest rate changes, etc. The strategy generally utilizes leverage up to 2.5 times assets under management.

**Convertible Arbitrage:** An absolute return strategy that typically pairs a long convertible bond position with a corresponding short position on the underlying company's equity. The team uses an actively managed hedge strategy to seek a consistent positive rate of return with lower volatility than equities. In general, it expects to deliver mid-to-high single digit returns in normal market environments, over a market cycle, typically five years.

## ***Risk Management***

Nicholas Investment Partners manage the firm's strategies with a risk aware approach to evaluate and attempt to preventing the intended and unintended risks in the portfolio. The investment team's thorough, bottom-up analysis and ongoing review of the changing dynamics of current holdings help to minimize adverse stock-specific risks and potentially mitigate the negative impact of exogenous events. The portfolio manager evaluates the following sources of security-specific risk:

- Fundamental characteristics and key growth drivers of the underlying company;
- Competitive pressures;
- Industry dynamics;
- Market volatility;
- Liquidity risk; and
- Regulatory environment

Relative performance to the portfolio's benchmark is another key risk closely monitored by the portfolio manager. Although a residual of our bottom-up stock selection process, relative exposures to the benchmark at the sector/industry and market capitalization level are also reviewed on an ongoing basis to identify risks associated with active bets compared to the benchmark.

There is also a need to evaluate the broad market risk as quantified by common fundamental factors. With that goal in mind, the investment team uses Axioma fundamental and statistical risk models on a short and/or medium-term horizon in combination to better understand the portfolio's systematic market factor risks. Axioma models broadly divide risk into two parts: factor risk and stock-specific risk. Factor risk is defined as the portfolio return's variance explained by common market factors: those can be fundamentals factors such as beta, size, and volatility or statistical. The portfolio return's variance that is not explained by Axioma's factors is called stock-specific risk.

Therefore, in reviewing the overall portfolio risk with Axioma, the investment team tries to balance both source of risk, factor and stock specific, in order to primarily reflect and be consistent with the bottom-up analysis while also taking into consideration the current market conditions and the inherent characteristics of the Axioma's model. Risk and portfolio exposures are evaluated on a point-in-time basis and relative to historical trends.

With those assumptions in mind, the investment team reviews the portfolio risk with the awareness that our bottom-up process will inherently produce several biases in our clients' portfolio exposures, particularly when compared with Axioma or other broad market risk models, as our bottom-up selection process generally focus on companies with higher growth potential in the small and mid-cap investment universes. This typically leads to portfolios with more volatile characteristics within riskier industries. In addition, our process may or may not choose companies that belong to the reference benchmark which in turn, when compared to the same benchmark, will also biased significantly bias the portfolio's factor risk exposures.

While Nicholas endeavors to limit risk using various tools and methods, no process or risk tools can eliminate or mitigate all risk associated with investing.

### ***Risk of Loss***

Investing in any strategy involves the risk of loss. The use of leverage can significantly increase the risk of loss. All investment programs have certain risks that are borne by the investor. Each holding in the portfolios is subject to security-specific risks as well as active risk to its benchmark. Security specific risk is minimized by restricting individual positions to a maximum weight for each strategy which is monitored daily by the lead portfolio managers and compliance personnel. The research process is designed to evaluate the relative risk and potential reward of each holding. This includes the evaluation of each company's business model, competition, changes in regulatory environment and other factors that would prevent the company from meeting its projected growth estimates. No process can eliminate all risk.

The investment team regularly monitors and evaluates the portfolio's risk/reward characteristics to help ensure our client portfolios are positioned to capture alpha and to manage significant risk exposures. Accordingly, our portfolio managers use Axioma's risk model to measure each security's individual contribution to the portfolio's active risk versus its benchmark. This process enables the



portfolio managers to better understand the sources of risk in the portfolio and validates their level of conviction in those holdings generating the highest stock specific risk. All

Additional risks inherent in investments include:

- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Call Risk:** Call risk is the risk that, during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce an investor's income if the proceeds are reinvested at lower interest rates.
- **Convertible Securities Risk:** Convertible securities have investment characteristics of both equity and debt securities. While equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility. The value of the convertible and debt securities may fall when interest rates rise. Securities with longer durations tend to be more sensitive to changes in interest rates, generally making them more volatile than securities with shorter durations. Due to their hybrid nature, convertible securities are typically more sensitive to changes in interest rates than the underlying common stock, but less sensitive than a fixed rate corporate bond.
- **Counterparty Risk:** The risk that the person or institution with which you have entered a financial contract -- who is a counterparty to the contract -- will default on the obligation and fail to fulfill their side of the contractual agreement. In other words, counterparty risk is a type of credit risk. Counterparty risk is the greatest in contracts drawn up directly between two parties and least in contracts where an intermediary acts as counterparty. It is the risk inherent to each party to a contract that the counterparty will not live up to its contractual obligations.
- **Credit Risk:** Investors could lose money on a debt related security, including a participatory note, if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' value. Investors may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually have.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

- **Depository Receipts Risk:** Depository receipts are generally subject to the same risks as the foreign securities that they evidence or into which they may be converted. Depository receipts are subject to many of the risks of the underlying security. For some depository receipts, the custodian or similar financial institution that holds the issuer's shares in a trust account is located in the issuer's home country. In these cases if the issuer's home country does not have developed financial markets, an account could be exposed to the credit risk of the custodian or financial institution and greater market risk. In addition, the depository institution may not have physical custody of the underlying securities at all times and may charge fees for various services, including forwarding dividends and interest and corporate actions. Investors may be expected to pay a share of the additional fees, which it would not pay if investing directly in the foreign securities. Investors may experience delays in receiving its dividend and interest payments or exercising rights as a shareholder. Depository receipts will be issued under sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities traded in the form of depository receipts.
- **Exchange-traded Funds Investing Risk:** Most exchange-traded funds ("ETFs") are investment companies whose shares are purchased and sold on a securities exchange. Generally, an ETF represents a portfolio of securities designed to track a particular market segment or index. An investment in an ETF generally presents the following risks: (i) the same primary risks as an investment in a conventional fund (i.e., one that is not exchange-traded) that has the same investment objectives, strategies and policies; (ii) the risk that an ETF may fail to accurately track the market segment or index that underlies its investment objective; (iii) price fluctuation, resulting in a loss to the Fund; (iv) the risk that an ETF may trade at a discount to its net asset value ("NAV"); (v) the risk that an active market for an ETF's shares may not develop or be maintained; and (vi) the risk that an ETF may no longer meet the listing requirements of any applicable exchanges on which that ETF is listed. In addition, as with traditional mutual funds, ETFs charge asset-based fees. Investors will indirectly pay a proportional share of the asset-based fees of the ETFs in which the Funds invest.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of not achieving profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Foreign Securities Risk:** Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: political and economic developments - the political, economic and social structures of some foreign countries may be less stable and more volatile than those in the U.S.; trading practices - government supervision and regulation of foreign security and currency markets, trading systems and brokers may be less than in the U.S.; availability of information - foreign issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers; limited markets - the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and currency exchange rate fluctuations and policies. The risks of foreign investments typically are greater in less developed

countries or emerging market countries and may be applicable to investing in depository receipts.

- **IPO Risk:** The strategies may purchase initial public offerings (IPOs) or shortly thereafter. The prices of securities purchased in IPOs can be very volatile. The effect of IPOs on the portfolio(s) performance depends on a variety of factors.
- **Interest Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Managed Portfolio Risk:** As an actively managed portfolio, the value of the Fund's investments could decline because the financial condition of an issuer may change (due to such factors as management performance, reduced demand or overall market changes), financial markets may fluctuate or overall prices may decline, or the manager's investment techniques could fail to achieve the Fund's investment objective or negatively affect the Fund's investment performance.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Small Cap Risk:** Small-cap stocks may be subject to a higher degree of risk than more established companies' securities. The relative illiquidity of the small-cap market may adversely affect the value of these investments.
- **Short Sale Risk:** A short sale is a transaction in which an account sells a security it does not own. Selling securities short involves unlimited risk as the security's price can theoretically continue to appreciate indefinitely which may result in unlimited losses. In addition, short positions typically involve increased liquidity risk and transaction costs, and the risk that the third party to the short sale may fail to honor its contract terms. The account may have to pay a fee to borrow particular securities and is often obligated to pay over any accrued interest and dividends on such borrowed securities to the buyer. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect

correlation between movements in the price of the security sold short and the securities being hedged.

- **Synthetic Convertible Securities:** A “synthetic” convertible security may be created by combining separate securities that possess the two principal characteristics of a traditional convertible security, i.e., an income-producing security (“income-producing component”) and the right to acquire an equity security (“convertible component”). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments, which may be represented by derivative instruments. The convertible component is achieved by investing in securities or instruments such as warrants or options to buy common stock at a certain exercise price, or options on a stock index. Unlike a traditional convertible security, which is a single security having a single market value, a synthetic convertible comprises two or more separate securities, each with its own market value. Therefore, the “market value” of a synthetic convertible security is the sum of the values of its income-producing component and its convertible component. For this reason, the values of a synthetic convertible security and a traditional convertible security may respond differently to market fluctuations.

More flexibility is possible in the assembly of a synthetic convertible security, such as an equity-linked note, than in the purchase of a convertible security. Although synthetic convertible securities may be selected where the two components are issued by a single issuer, thus making the synthetic convertible security similar to the traditional convertible security, the character of a synthetic convertible security allows the combination of components representing distinct issuers, when believed that such a combination may better achieve a strategy’s investment objective. A synthetic convertible security also is a more flexible investment in that its two components may be purchased separately. For example, an account may purchase an Equity Linked Note (a hybrid fixed income instrument) whose return is partially dependent upon the performance of an underlying equity (stock, basket of stocks, index, basket of indexes, or some mix of these). These instruments are generally designed for the Over the Counter (OTC) institutional investment market. However, there are a growing number of exchange traded Equity Linked Notes available. There are two main categories of Equity Linked Notes: 1) those that offer guaranteed protection of the investor's principal, and 2) those that leave the investor's principal at risk.

A holder of a synthetic convertible security, including an equity-linked note, faces the risk of a decline in the price of the security or the level of the index involved in the convertible component, causing a decline in the value of the security or instrument, such as a call option or warrant, purchased to create the synthetic convertible security. Should the price of the stock fall below the exercise price and remain there throughout the exercise period, the entire amount paid for the call option or warrant would be lost. Because a synthetic convertible security includes the income-producing component as well, the holder of a synthetic convertible security also faces the risk that interest rates will rise, causing a decline in the value of the income-producing instrument. The terms of the security are subject to the credit-worthiness of the issuer which gives rise to counterparty-risk.

## **Item 9: Disciplinary Information**

Neither Nicholas, nor any of its employees have been the subject of any material legal or regulatory findings, or the subject of any pending criminal proceedings.

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

Except as previously disclosed for registered investment companies and UMA programs, Nicholas has no affiliation with any other financial service providers. Neither Nicholas, nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Additionally, neither the Firm nor any member of its management are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of these entities. Nicholas does not recommend or select other investment advisers for direct or indirect compensation.

Nicholas serves as sub-advisor to various registered investment companies. Nicholas has no material relationship with the advisers to these investment companies aside from acting as a sub-adviser that would introduce potential conflicts of interest. Nicholas is not compensated by the funds to sell or distribute the investment companies' shares. Nicholas receives an asset-based fee for its management services to the investment companies.

Nicholas acts as the general partner for two private funds. Supervised and Related Persons have significant ownership interests in the funds. This creates a conflict of interest as Nicholas may have an incentive to allocate the most profitable trades to the funds in which it has significant beneficial interest. Nicholas has implemented certain procedures to help mitigate these conflicts that are described briefly in Item 6 and in our Code of Ethics.

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

### ***Description of Code of Ethics***

The employees of Nicholas have committed to understanding and abiding by the firm's Code of Ethics. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request. You may obtain a copy of our most recent Code of Ethics by sending a request to:

Nicholas Investment Partners  
Attention: Christopher Siriani  
P.O. Box 9267  
Rancho Santa Fe, CA 92067

### ***Participation or Interest in Client Transactions***

Neither Nicholas nor its supervised persons buy securities from or sell securities to any investment advisory client.

As discussed in item 10, Nicholas acts as the general partner for two private funds. Supervised and Related Persons have significant ownership interests in the funds. Nicholas, its supervised employees and their family members are invested in the funds along with clients. These related parties participate in all funds transactions on a pro rata basis along with clients. Nicholas does not solicit or recommend to advisory clients to invest in the funds for which it acts as general partner and advisor. Generally, the funds are only offered to firm employees and their family and friends of the firm. The potential conflicts of interest that arise from this situation are described briefly in Item 6, Item 10 and in detail in our Code of Ethics.

### ***Personal Trading***

Nicholas and its employees may buy or sell securities in their personal accounts that are also held in client accounts.

Nicholas has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended, which establishes standards of conduct for Nicholas' supervised persons. The Code of Ethics includes general requirements that Nicholas' supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. As stated above, clients and prospective clients may obtain a copy of Nicholas' Code of Ethics by contacting Chris Siriani at [csiriani@nicpartners.com](mailto:csiriani@nicpartners.com).

Each supervised person of Nicholas receives a copy of the Code of Ethics and any material amendments to it and must acknowledge in writing having received the materials. Annually, each supervised person must certify that he or she complied with the Code of Ethics during that year. It also requires supervised persons to report any violations of the Code of Ethics promptly to Nicholas' Chief Compliance Officer.

The Code of Ethics requires supervised persons to report their personal securities transactions and holdings at least quarterly to Nicholas for review. The Code of Ethics also requires all personnel to

pre-clear all trades (including private placements) for personal securities accounts with the Compliance Officer or designated senior personnel, other than trades specified as “exempted securities” (such as mutual funds, exchange traded funds, US treasuries, etc.).

Nicholas and its partners, officers and employees may buy or sell certain securities for their own accounts based on personal investment considerations aside from company or industry fundamentals, which Nicholas would not deem appropriate to buy or sell for clients. Nicholas’ partners, officers and employees may also invest in Nicholas’ managed portfolios. Nicholas’ partners, officers and employees, may from time to time purchase or sell, or hold positions in, securities recommended to clients, including purchasing securities that are being sold for clients and vice versa. Nicholas’s Code of Ethics seeks to ensure such employees do not personally benefit from the short-term market effects of their recommendations to clients through several safeguards. First, as described above, Nicholas requires all employees to pre-clear all trades for personal securities accounts (except trades with respect to specified “exempted securities”). In determining whether to pre-clear a trade, the Chief Compliance Officer and the person requesting the trade must confirm that: (1) the individual attest that he/she is not acting on material non-public information (inside information) (2) no client account has engaged in a material transaction in that security (or an equivalent security) within the past three days and Nicholas does not plan to trade in such security (or an equivalent security) in the following three days; and (3) with respect to any sale by an investment person, the person requesting the trade has held the security for at least 30 days (unless the security is being sold at a loss). The three-day black out period is inclusive of the client trade date in the security and may be waived by the CCO under certain circumstances which are detailed in the firm’s Code of Ethics. The Compliance Officer may waive these restrictions based on individual circumstances and if it is determined that the trade does not involve a material conflict with clients’ interests.

All personnel are required to send duplicate copies of confirmations or statements, with respect to all brokerage accounts they are obligated to report, to Nicholas to monitor compliance with Nicholas’ personal trading policies and restrictions summarized above.

Nicholas manages accounts beneficially owned by the principals of the adviser that were initially invested to seed the firm’s products which remain active today to demonstrate our commitment to the business and our products. These accounts are managed in strategies that are substantially similar to the accounts we manage for our clients in their respective strategies. These accounts are managed along-side our client’s accounts and treated, in all material respects, as if the accounts were client accounts. The account’s trades are aggregated with client’s trades and receive the same average price and pro-rata allocations as other clients participating in the trade. These accounts are monitored daily to ensure they have the same holdings as our client accounts for the respective strategies.

Nicholas also manages accounts that are beneficially owned by the principals of the adviser and are managed in a highly concentrated, tax-aware strategy not appropriate for most clients. Nicholas treats the trading activity in these accounts as personal securities transactions and has implemented specific policies to address the conflicts associated with managing these accounts along-side our clients’ accounts. All trades in non-exempt securities are processed through Nicholas’ trade order management system and must be approved by the Chief Investment Officer and Chief Compliance

Officer (or designees in their absence). The accounts' trades are reconciled daily from the trading system to the custodian of the accounts to ensure no unauthorized trading has occurred.

## Item 12: Brokerage Practices

### ***Broker Selection Criteria***

Nicholas generally exercises discretion to select the brokers used for execution of client transactions. Any of the following selection criteria, without limitation, may be used by the Firm when selecting brokers:

- Research capability, coverage and accessibility to Nicholas' investment team;
- Ability to access international research, including relevant industry analysis;
- Ability to execute trades;
- Quality of customer service and interaction with Nicholas;
- Transaction rates;
- Reliability and financial stability;
- Ability to access liquidity;
- Counterparty risk;
- Execution and settlement speed;
- Trust, including ability to maintain confidentiality regarding our market activities; and

When placing client trades, Nicholas strives to seek best execution for its client at the time of the trade. Although Nicholas will strive to achieve the best execution possible for client securities transactions, this does not require it to solicit competitive bids and Nicholas does not have an obligation to seek the lowest available commission cost. In seeking best execution, the determinative factor is not necessarily the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with these factors, while Nicholas will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions. Nicholas is not required to negotiate "execution only" commission rates, thus the client may be deemed to be paying for research and related services (*i.e.*, "soft dollars"), if any, provided by the broker which may be included in the commission rate.

In an effort to ensure brokerage firms selected by Nicholas are conducting overall best execution, Nicholas will periodically evaluate the trading process and brokers utilized. Nicholas' evaluation will consider the full range of brokerage services offered by the brokers, which may include but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

While Nicholas generally has discretion to determine which brokers will be used for trade execution, Nicholas does not recommend to clients which brokers (or custodians) they should engage for their own purposes.



### **Directed Brokerage Arrangements**

Clients may instruct Nicholas in writing to use a specific broker or brokers to execute all or a portion of their trades. This is generally referred to as a “directed brokerage arrangement”. A client’s directed brokerage instructions will remain in effect until Nicholas is notified in writing of any changes to the arrangement. Clients will usually set a goal or target percentage of their transactions that are required to be directed to a list of brokers specified by each client. Although Nicholas strives to achieve best execution for all trading, Nicholas believes directed brokerage arrangements may inhibit its ability to obtain the “best execution” for a client’s directed transactions.

Clients should understand that directed brokerage arrangements may cause clients to pay higher commission rates and receive less favorable prices than other clients that do not direct brokerage. In addition, clients who have restricted brokerage to particular brokers may have their orders executed after those accounts that do not have such restrictions, and may forego any benefits of volume discounts, block (aggregated) trades and access to additional liquidity.

### **Soft Dollar Considerations**

When appropriate under its discretionary authority and consistent with its duty to seek best execution, Nicholas may direct brokerage transactions for client accounts to broker-dealers that provide Nicholas with research and brokerage products and services. The brokerage commissions used to acquire research and brokerage products and services are known as “soft dollars.” Securities Exchange Act section 28(e) provides a “safe harbor” that permits an investment adviser to pay more than the lowest available commission for brokerage and research services if it determines in good faith that the commission paid is reasonable in relation to the brokerage and research products and services provided.

Research broker-dealers typically provide a bundle of services including research services and execution of transactions. The research provided can be either proprietary (created and provided by the broker-dealers, including tangible research products as well as access to analysts and traders) or third-party (created by a third party, but provided by broker-dealers). Research services can be provided in various forms including meetings, conversations, meetings with company management teams, conferences, market index and analytical product and written reports. Nicholas may use soft dollars to acquire either type of research. Nicholas will make a good faith determination that the commissions charged by research brokers are reasonable relative to the research and execution services. Some examples of the 28(e) eligible research and brokerage services used by Nicholas are FactSet Research Services, InsiderScore, Bloomberg, Russell Investments, S&P Capital IQ, Ned Davis Research, NYSE Markets, Monis Convertible Analytics and Global Trading Analytics, EZE Castle Tradewinds, NYFIX, among others.

Currently, Nicholas obtains both proprietary and third-party research services which it pays for using soft dollars in accordance with Section 28(e) of the Securities Exchange Act.

Research and execution services obtained with soft dollars are not necessarily used for the specific account that generates the soft dollar credit. Nicholas does not attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives benefits all clients and assists Nicholas in fulfilling its overall duty to all its clients. Moreover, clients whose accounts do not permit certain transactions that generate the soft dollars or

prohibit soft dollar transactions entirely may benefit from the research and other services provided to Nicholas.

The receipt of research in exchange for soft dollars benefits Nicholas by allowing Nicholas, at no cost to it, to supplement its own research and analysis activities, to receive the views and information of individuals and research staffs of other securities, firms, and to gain access to personnel having special expertise on certain companies, industries and areas as well as economic and market factors. Research and brokerage services acquired with soft dollars may include, but not be limited to: reports on the economy, industries, sectors, and individual companies or issuers; statistical information; accounting and tax law interpretations; political analyses; reports on legal developments affecting portfolio securities; information on technical market actions; credit analyses; quotation and trading systems; risk measurement software and services; news services; financial and market data services; research conferences; and conferences with analysts and company executives.

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type. Nicholas may select broker-dealers based on its assessment of their ability to provide quality executions and its belief the research, information, and other services provided by such broker-dealers may benefit client accounts. It is not always possible to place a dollar value on the special executions or on the research services Nicholas receives from broker-dealers effecting transactions in portfolio securities. Accordingly, broker-dealers selected by Nicholas may be paid commissions for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if Nicholas determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or Nicholas' overall duty to its discretionary accounts.

Nicholas will not enter into any agreement or understanding with any broker-dealers which would obligate Nicholas to direct a specific amount of brokerage transactions or commissions in return for such services or client referrals. However, Nicholas, in the course of its trading relationship with various brokers may be introduced to prospective investors for its strategies. This could create a potential conflict of interest where Nicholas could potentially increase its executions with brokers that make introductions or referrals. Nicholas' Best Execution Committee meets quarterly to review brokerage activity to ensure the level of brokerage activity is consistent with best execution policy and that any material changes in brokerage activity is reasonable and consistent with Nicholas' policy.

In using third party research or other services, Nicholas may use its available soft dollar credits to pay research service invoices or make payments directly to brokers for proprietary research services. If the product or service obtained by Nicholas is a "mixed use" item (products or services that provide both 28(e) and non-28(e) research and brokerage services), Nicholas may use soft dollars for the 28(e) eligible portion and pay cash for the non-28(e) eligible portion. Although the allocation between soft dollars and cash is not always capable of precise calculation, Nicholas will make a good faith effort to allocate such items reasonably.

Nicholas' relationships with brokerage firms that provide soft dollar services to Nicholas influence Nicholas' judgment in allocating brokerage business and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. These conflicts of interest are particularly influential to the extent that Nicholas uses soft dollars to pay expenses it would otherwise be required to pay itself. Nicholas attempts to limit soft dollar commissions to thirty percent or less of total commissions on a calendar year basis.

Third party research and services obtained with soft dollars are reviewed at least annually by Nicholas's Partner Committee, including the Chief Compliance Officer, and Chief Investment Officer. Soft dollar commissions are also reviewed on a monthly basis in the firm's Compliance and Operations Report, distributed to employees from Investments, Client Service, Compliance and Operations.

### ***Aggregation of Trades & Trade Rotation***

#### **Institutional, Other Separate Accounts and Registered Investment Companies and Private Funds**

Although each client account is individually managed, Nicholas often purchases and/or sells the same securities for many accounts. When possible, Nicholas aggregates transactions in the same securities for eligible clients for whom Nicholas has discretion to direct brokerage. Clients in an aggregated transaction each receive the same average price per share or unit which is generally allocated on a pro-rata basis. Eligibility for a transaction will depend on various factors including available cash, account restrictions, client directed brokerage, among others.

If more than one price is paid for securities in an aggregated transaction, each client in the aggregated transaction will typically receive the average price paid for the securities in the same aggregate transaction on that day. If Nicholas is unable to fill an aggregated transaction completely, but receives a partial fill of the aggregated transaction, Nicholas will normally allocate the partially filled transaction to clients pro rata.

After Nicholas has determined which client accounts are able to participate in an aggregated transaction, Nicholas uses an allocation methodology that helps ensure, over time, that no one account receives trading priority over any other account. As Nicholas executes aggregate orders, Nicholas generally allocates shares based on a pro rata methodology. In certain cases Nicholas may not allocate securities purely on a pro rata basis due to various factors which may include, without limitation, (i) client specific restrictions, (ii) cash availability, (iii) availability of alternative investment opportunities, (iv) rebalancing frequency, and (v) type of account, among others. Nicholas believes that its trade allocation policy is designed and applied in a manner that will result in the fair and equitable allocation of trades over time for all clients.

Once Nicholas executes a trade, Nicholas will give an average price to all of the accounts covered by the aggregated trade. Partially completed orders will be allocated on the same basis as completed orders.

Some clients with highly specific investment policies or restrictions may not be able to participate in aggregated transactions for certain issues and may only be invested in such issues after guideline compliance has been established with respect to the acceptability of the issue and permissible

amounts. Such clients may receive a less favorable price on such transactions. Some clients may not be able to participate in aggregated transactions for most issues and/or may be consistently traded toward the end of Nicholas' trade rotation if Nicholas determines that including such a client in aggregated transactions or in the normal trade rotation could adversely impact Nicholas' broader client group. In such cases, Nicholas will provide such client with prior notice of the reasons preventing them from regularly participating in aggregated transactions and/or being placed higher in the trade rotation. Such clients may regularly receive less favorable prices on account transactions.

If clients have instructed Nicholas to direct to a particular broker, they may pay different prices and commissions than those accounts that are unrestricted.

### **Equity Trade Rotation Policy**

Nicholas' trade rotation policy is designed to provide each client an equal opportunity to trade first in the trading rotation. The firm believes, over time, this policy will treat all clients fairly with respect to being first to the market.

Generally, under normal market conditions, each client's trading position will rotate on a fixed schedule based upon "week and out" basis. This means each account will systematically move down in the trade rotation on a weekly basis (rather than each account maintaining the same place in the rotation indefinitely). Consequently, with the passage of each week an account will move down one position in the rotation with the exception of the account in last position, which will become the first account in the next week's rotation. The table and definitions below illustrate, generally, how the rotation changes from week to week.

Trading Group	Rotation Week 1	Rotation Week 2
1 <sup>st</sup>	Unrestricted Equity Block	UMA Program
2 <sup>nd</sup>	Directed Equity Block	Unrestricted Equity Block
3 <sup>rd</sup>	Client 1 (highly restricted)	Directed Equity Block
4 <sup>th</sup>	Client 2 (highly restricted)	Client 1 (highly restricted)
5 <sup>th</sup>	UMA Program	Client 2 (highly restricted)

### **Convertibles Products**

Nicholas' convertible products are not subject to the trade rotation policy above as trades are generally aggregated for all accounts within the strategies and not subject to various trading groups.

### **Out of Rotation Orders / Order Modifications / Add-Ons**

Nicholas will follow its rotation policy on a consistent basis; however, there are occasions where we will deviate from the policy for a specific trade or group of trades. This may occur due to market conditions, company specific developments, system issues or portfolio management direction. For example, when Nicholas is liquidating a position in an expedited manner, the accounts will generally be traded simultaneously to liquidate the position across all accounts as soon as possible. In cases where system issues (i.e. late files from custodians, brokers, etc.) may prevent a group of

accounts from trading, Nicholas will move through the rotation and trade the affected accounts when possible.

Nicholas believes any deviations from the trade rotation policy will be infrequent and over time the policy, even with some deviations, will result in a fair and equitable trading policy for all clients.

### **UMA Model Portfolios**

Nicholas has no trading discretion for UMA programs and therefore does not block UMA orders with its discretionary accounts. Nicholas will generally notify the UMA program sponsors of new trades in order of the trade rotation policy; however, Nicholas will not wait for confirmation of trade completion from the sponsors before moving on the next block in the rotation.

### **Trade Errors**

While Nicholas makes every effort to avoid mistakes, the trading process may result in unintended trade errors from time to time. Examples of trade errors may include purchasing or selling the wrong security, purchasing a security when the intent was to sell the security, selling a security when the intent was to purchase, allocating securities to accounts that are ineligible to own such security, or incorrect price allocation for the security being bought or sold. Nicholas believes it has adequate procedures to detect and prevent trade errors before they occur.

If a trade error is identified, it is promptly brought to the attention of the CCO, CIO, portfolio manager and trader for investigation and corrective action as needed. Trade errors are fully documented. Any trade error caused by Nicholas that results in losses to a client account is reimbursed by the firm to make the client whole. If a trade error results in a gain the client will receive the benefit of the gain.

## **Item 13: Review of Accounts**

### ***Account Review***

Accounts performance, holdings and investment guidelines are monitored daily by the CIO, portfolio managers and compliance personnel.

Monthly account reviews are performed by the Client Service/Marketing team, Operations and Compliance. Account reviews are performed more frequently when market conditions dictate. In addition, the firm distributes a monthly firm-wide Operations & Compliance Report to review the following compliance and operations topics, among others:

- Post-trade compliance issues, if any;
- Portfolio characteristics and risk analysis
- Best execution;
- Broker commissions;
- Soft dollar commissions;
- IPOs;
- Code of Ethics violations, if any;
- Client complaints, if any;
- Disclosures of gifts;

- Trade errors, if any;
- Compliance training as needed; and
- Any other operations or compliance related matters that require attention

Recipients include the firm's CIO, portfolio managers, traders, analysts, and client service and marketing staff. Monthly compliance and operations reports foster full disclosure and accountability within the firm and reinforce training and the importance of our compliance efforts.

### ***Regular Reports***

Account reviewers are members of the firm's Investment team, Operations team and the Client Service team. Clients receive periodic communications on at least a monthly basis. Written updates may include market and portfolio commentary and market outlook. Additionally, separate accounts receive an electronic account statement each month containing portfolio market value, performance, holdings, income, flows and a transaction summary.

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

Nicholas does not receive an economic benefit from any third party for providing investment advisory referrals. Moreover, neither the Firm nor any of its related persons directly or indirectly compensates any person who is not a supervised person for client referrals.

## **Item 15: Custody**

### **Institutional, Other Separate UMA Accounts**

Pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, Nicholas is deemed not to have custody of client assets for any of its institutional separate, registered investment company or UMA accounts. Nicholas does not maintain physical possession of these clients' cash or securities. Generally, these clients deposit their assets with a qualified custodian selected by the client. If Nicholas' investment management fees are paid directly from the account managed by Nicholas the clients will generally instruct their custodians to pay Nicholas. Nicholas has no authority to deduct fees from these accounts.

UMA account assets are generally deposited with the Program Sponsor or a qualified custodian selected by the Program Sponsor. Nicholas's UMA fees are paid the Program Sponsor and Nicholas has no authority to deduct fees from these accounts. Notably, in these cases a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost above the UMA fee. Clients should be aware, however, of the differences between having their assets held at a broker-dealer versus a custodian bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

Nicholas may only implement its investment management recommendations after the client has arranged for and furnished Nicholas with all information and authorization regarding its accounts held at the designated qualified custodian.

Clients will generally receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to any reports that may be provided by Nicholas. Nicholas' reports for client accounts may vary from custodial statements based on accounting procedures, pricing sources, reporting dates, or valuation methodologies of certain securities.

### **Private Funds**

Pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, Nicholas is deemed to have custody of assets for its two private funds due to its position as general partner of the funds. The private funds are not subject to a surprise examination, however, the funds are subject to an annual audit by a PCAOB registered independent public accountant and audited financial statements prepared in accordance with GAAP are delivered to all investors annually within 120 days of fiscal year end.

## **Item 16: Investment Discretion**

### ***Discretionary Authority; Limitations***

All investment management services are performed by Nicholas on a discretionary basis. In exercising its discretionary authority, Nicholas accepts discretionary authority to manage securities accounts on behalf of clients. Nicholas has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of the securities to be bought or sold and the timing of the transactions. The client does not approve the broker to be used and the commission rates paid to the broker.

As disclosed previously, Nicholas has no discretionary authority over the UMA program accounts or trades will generally be placed by the Program Sponsors or their trading desks.

### ***Limited Power of Attorney***

By signing Nicholas' advisory agreement, clients authorize Nicholas to exercise full discretionary authority with respect to all transactions involving the client's account. Pursuant to such agreement, Nicholas is designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account which authorizes Nicholas to give instructions to third parties in furtherance of such authority.

Nicholas' discretionary authority may also be limited by federal, state and local laws for registered investment companies, public funds and ERISA accounts.

## Item 17: Voting Client Securities

Unless the client designates otherwise, Nicholas votes proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy. Nicholas' proxy voting policy is as follows:

Nicholas has retained Glass Lewis & Co., LLC ("Glass Lewis") to provide research, recommendations and voting services on proxy voting issues. Nicholas has instructed Glass Lewis to make voting decisions on behalf of each of Nicholas' accounts based on the considerations described in the proxy voting guidelines Glass Lewis periodically provides to Nicholas. Nicholas may override Glass Lewis' voting decisions if Nicholas deems it in the best interests of Nicholas' accounts. If Nicholas does not affirmatively override Glass Lewis' recommended voting decision, Glass Lewis will vote in accordance with its recommendation.

Notwithstanding the possibility that a material conflict of interest over proxy voting may arise between Nicholas and a client, Nicholas believes that it places the interests of its clients ahead of Nicholas' own interests by following Glass Lewis' recommendations. However, if Nicholas determines that the foregoing proxy voting policies do not adequately address a material conflict of interest over proxy voting arising between Nicholas and a client, Nicholas will, in its exclusive discretion, either (a) direct Glass Lewis to vote its proxy in accordance with Glass Lewis' recommendation or (b) provide the client with copies of all proxy solicitation materials that Nicholas receives with respect to this proxy, notify the client of the conflict and of Nicholas' intended response to the proxy solicitation and request that the client consent to Nicholas' intended response. If the client consents to Nicholas' intended response or fails to respond to the notice within a reasonable period of time specified in the notice, Nicholas will vote the proxy as described in the notice. If the client objects to Nicholas' intended response, Nicholas will vote the proxy as directed by the client.

If a material conflict of interest over proxy voting arises between Nicholas and a client, Nicholas will vote all proxies in accordance with the policy described above. If Nicholas determines that this policy does not adequately address the conflict of interest, Nicholas will notify the client of the conflict and request that the client consents to Nicholas' intended response to the proxy solicitation. If the client consents to Nicholas's intended response or fails to respond to the notice within a reasonable period of time specified in the notice, Nicholas will vote the proxy as described in the notice. If the client objects to Nicholas' intended response, Nicholas will vote the proxy as directed by the client.

Clients may obtain a copy of Nicholas' proxy voting policy and voting record cast on behalf of that client by contacting Chris Siriani at (858) 759-4545 or email [info@nicpartners.com](mailto:info@nicpartners.com).

Nicholas will not process documents or give advice to clients regarding their participation as a member of a class action lawsuit for any accounts other than the private funds for which Nicholas acts as the general partner. Nicholas will provide assistance with trading related data as requested by all clients to help facilitate the client's proof of claim.



## **Item 18: Financial Information**

Nicholas does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Nicholas does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.