

# Disclosure Brochure

March 29, 2011

## **Punch & Associates Investment Management, Inc.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Punch & Associates Investment Management, Inc. (hereinafter "Punch & Associates"). If you have any questions about the contents of this brochure, please contact Nancy Bohlman at (952) 224-4350. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Punch & Associates Investment Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Punch & Associates Investment Management, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since Punch & Associates' last annual update dated March 2, 2010. Punch & Associates does not have any material changes to disclose in this Item.

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## Item 4. Advisory Business

Punch & Associates provides financial planning, consulting, and investment management services. Prior to engaging Punch & Associates to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Punch & Associates setting forth the terms and conditions under which Punch & Associates renders its services (collectively the “Agreement”).

Punch & Associates has been in business as an SEC registered investment adviser since May 31, 2002. Howard D. Punch and Andrew J. Matysik are the principal owners of Punch & Associates.

Punch & Associates has \$392,235,891 of assets under management as of December 31, 2010, all of which are managed on a discretionary basis.

This Disclosure Brochure describes the business of Punch & Associates. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Punch & Associates’ officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Punch & Associates’ behalf and is subject to Punch & Associates’ supervision or control.

### Financial Planning and Consulting Services

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Punch & Associates may provide its clients with a broad range of comprehensive financial planning and consulting services. These services include an ongoing coordination of clients’ investment assets, as well as tax, insurance, education, retirement, estate planning, philanthropic, banking, and other services as deemed necessary to meet the client’s needs.

In performing its services, Punch & Associates is not required to verify any information received from the client or from the client’s other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Punch & Associates may recommend the services of itself, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists when Punch & Associates recommends its own services. The client is under no obligation to act upon any of the recommendations made by Punch & Associates under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Punch & Associates itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Punch & Associates’ recommendations. Clients are advised that it remains their responsibility to promptly notify Punch & Associates if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Punch & Associates’ previous recommendations and/or services.

## Investment Management Services

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Clients can engage Punch & Associates to manage all or a portion of their assets on a discretionary basis.

Punch & Associates primarily allocates clients' investment management assets among individual debt and equity securities and various no-load and load-waived mutual funds in accordance with the investment objectives of the client. In addition, Punch & Associates may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. Punch & Associates also provides advice about any type of investment held in clients' portfolios.

Punch & Associates also may render discretionary or non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, or other products that may not be held by the client's primary custodian. In so doing, Punch & Associates either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Punch & Associates tailors its advisory services to the individual needs of clients. Punch & Associates consults with clients initially and on an ongoing basis to risk tolerance, time horizon and other factors that may impact the clients' investment needs. Punch & Associates ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Punch & Associates if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Punch & Associates' management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in Punch & Associates' sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Management of Collective Investment Vehicle

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Punch & Associates currently acts as the managing member of Punch Micro Cap Partners, LLC (the "*Private Fund*"), a Delaware limited partnership formed February 28, 2005 to engage primarily in the business of investing and trading in securities. Interests in the *Private Fund* are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. The *Private Fund* currently relies on an exemption from registration under the Investment Company Act of 1940, as amended, that is available to investment vehicles that do not have more than 100 investors. Punch & Associates' affiliate has discretionary authority to determine the broker or dealer to be used by the *Private Fund*.

## Punch & Associates Investment Management, Inc. Disclosure Brochure

Participation as an investor in the *Private Fund* is restricted to investors that are qualified clients pursuant to the requirements under Rule 205-3 under the Investment Advisers Act of 1940, as well as are “accredited investors” as defined under Rule 501 of the Securities Act of 1933, as amended. Punch & Associates may recommend that certain eligible clients invest in the *Private Fund*.

The minimum initial investment in the *Private Fund* is \$250,000, subject to waiver at the discretion of Punch & Associates. To the extent certain of Punch & Associates’ individual advisory clients qualify, they will be eligible to participate as limited partners of the *Private Fund*. Investment in the *Private Fund* involves a significant degree of risk. All relevant information, terms and conditions relative to the *Private Fund*, including the compensation received by Punch & Associates or any affiliate as the general partner and/or investment manager, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Placement Memorandum (the “*Memorandum*”), Limited Partnership Agreement (the “*Agreement*”), and Subscription Agreement (together, the “*Offering Documents*”), which each investor is required to receive and/or execute prior to being accepted as an investor in the *Private Fund*.

While the *Private Fund* is generally Punch & Associates’ client, the term “client(s)” sometimes refers to the investors in the *Private Fund*.

Punch & Associates will devote its best efforts with respect to its management of both the *Private Fund* and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in the *Private Fund*, Punch & Associates may give advice or take action with respect to the *Private Fund* that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the *Private Fund* and certain individual client accounts, such investments will be allocated between the *Private Fund* and the individual client accounts pro rata based on the assets under management or in some other manner which Punch & Associates determines is fair and equitable under the circumstances to all of its clients.

## Item 5. Fees and Compensation

Punch & Associates offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management or the performance of the client's portfolio.

### Financial Planning and Consulting Fees

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Punch & Associates may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$2,500 to \$10,000 on a fixed fee basis and/or from \$100 to \$200 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services.

Prior to engaging Punch & Associates to provide financial planning and/or consulting services, the client is required to enter into a written agreement with Punch & Associates setting forth the terms and conditions of the engagement.

### Investment Management and Implementation Fee

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Punch & Associates provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Punch & Associates. Punch & Associates' annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Punch & Associates does not, however, receive any portion of these commissions, fees, and costs. Punch & Associates' annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Punch & Associates on the last day of the previous quarter. The annual fee is 1.00% per annum.

### Performance Fee

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Punch & Associates may render investment management services to *qualified clients* for a performance-based fee in accordance with the requirements set forth in applicable laws, rules, and regulations. For those clients, which include the *Private Fund*, Punch & Associates charges a fee based upon a percentage of the market value of the assets being managed by Punch & Associates ("*base fee*") in addition to a fee or allocation based on the performance of the account ("*performance fee*").

For investments in the *Private Fund*, Punch & Associates charges a *performance fee* of up to twenty percent (20%) of net profits during a "performance period," subject to a high water mark. The performance period is typically calculated annually (or upon any withdrawals from the *Private Fund*). Punch & Associates also charges a *base fee* of one percent (1.00%) which is prorated and charged monthly, in advance, based on the market value of the assets under management in the *Private Fund* on the first day of the month.

Under this fee arrangement, there is the potential for a conflict of interest in that the *performance fee* may be an incentive for Punch & Associates to make investments that are riskier or more speculative than would be the case absent a *performance fee* arrangement.

Punch & Associates, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### **Fees Charged by Financial Institutions**

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As further discussed in response to Item 12 (below), Punch & Associates generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*"), Schwab & Co., Inc. ("*Schwab*"), Merrill Lynch & Co., Inc. ("*Merrill Lynch*"), or Wells Fargo & Company ("*Wells Fargo*") (together, "*broker-dealers*") for investment management accounts.

Punch & Associates may only implement its investment management recommendations after the client has arranged for and furnished Punch & Associates with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, the *broker-dealers*, any other broker-dealer recommended by Punch & Associates, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Punch & Associates' fee.

Punch & Associates' *Agreement* and the separate agreement with any *Financial Institutions* may authorize Punch & Associates to debit the client's account for the amount of Punch & Associates' fee and to directly remit that management fee to Punch & Associates. Any *Financial Institutions* recommended by Punch & Associates have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Punch & Associates.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.



## Punch & Associates Investment Management, Inc. Disclosure Brochure

The *Agreement* between Punch & Associates and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Punch & Associates' fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Punch & Associates' right to terminate an account. Additions may be in cash or securities provided that Punch & Associates reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Punch & Associates, subject to the usual and customary securities settlement procedures. However, Punch & Associates designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Punch & Associates may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an existing account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.

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

As discussed in response to Item 5, above, Punch & Associates may render investment management services to *qualified clients* for a performance-based fee. This fee arrangement raises conflicts of interest. The performance fee may be an incentive for Punch & Associates to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where Punch & Associates charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee.

Punch & Associates has procedures in place to ensure that any recommendations made are in the best interest of clients regardless of whether the client is paying a performance-based fee or different type of fee.

## Item 7. Types of Clients

Punch & Associates provides its services to individuals, partnerships, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### **Minimum Account Size**

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As a condition for starting and maintaining a relationship, Punch & Associates generally imposes a minimum portfolio size of \$250,000. Punch & Associates, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Punch & Associates only accepts clients with less than the minimum portfolio size if, in the sole opinion of Punch & Associates, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Punch & Associates may aggregate the portfolios of family members to meet the minimum portfolio size.

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

### Methods of Analysis

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Punch & Associates' primary methods of analysis are fundamental and technical analysis.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. Punch & Associates will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Punch & Associates will be able to accurately predict such a reoccurrence.

### Investment Philosophy

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Punch & Associates' investment philosophy is based on the belief that returns on capital are greatest where capital is most scarce. Punch & Associates formulates investment ideas by focusing in areas of the market Punch & Associates believes other investors have discarded, misunderstood, or simply ignored. Punch & Associates looks for market behavior toward investments that is short-sighted, emotionally-driven, and uninformed. Punch & Associates places an emphasis on behavioral investing and believes that the migration of the investment herd creates value. Punch & Associates seeks to identify areas where investor sentiment and expectations are lowest, anticipate themes that currently have low recognition and employ time arbitrage. Punch & Associates believes that most investors tend to have very short-term time horizons, have rapid turnover, and are trying to exploit very short-term anomalies in the market. In an environment with massive short-term data overload and with individuals concerned about minute-to-minute performance, Punch & Associates believes that inefficiencies are likely in time frames twelve months and beyond.

Punch & Associates is committed to managing risk by staying disciplined throughout each market cycle. Punch & Associates' approach is primarily fundamental as Punch & Associates believes that there are no shortcuts to selecting good investments. Punch & Associates performs its own research in order to make the most informed decisions and to gain an information edge over other small cap investors. Punch & Associates closely monitors investor sentiment and believes that investors make predictable, repeated errors that frequently create value. All too often, investors commit the "sin of certainty" by chasing

performance in popular stocks or asset classes that have performed the best recently and at times in which they receive the most notoriety. As valuations in the “must own” securities are pushed to extremes, capital gets “distracted” away from other industries and companies, and value is often created in these left-behind areas that remain out of the spotlight.

Punch & Associates utilizes a bottoms-up security selection process, in which it seeks securities with specific characteristics in order to find income-producing investments that have a strong potential for total return. In selecting investments, Punch & Associates seeks companies or securities whose cash-flow payouts are adequately supported by the underlying strength of the issuing entity and that are unlikely to change dramatically. Punch & Associates also believes that asset classes or sectors that have underperformed over the past three to five years or are out-of-favor with most investors are fertile ground for finding value-priced securities. Punch & Associates believes the bottoms-up security selection process works best when analysis is unique and independent from the views of most investors.

Punch & Associates attempts to purchase growth companies at value prices. Punch & Associates believes that these companies afford the greatest returns as they transition from the “value” camp to the “growth” camp, as other investors take recognition of them. Punch & Associates combines a value manager’s risk assessment abilities with a growth manager’s imagination in its small cap approach. Punch & Associates strives to assemble a portfolio of high-quality companies at undemanding valuations. In assembling portfolios, Punch & Associates favors the small cap asset class because relatively few professional investors are focused in this area, creating a dearth of analysis and research which Punch & Associates believes leads to persistent pricing and informational inefficiencies. Because of these inefficiencies, Punch & Associates believes the small cap space is where thorough research matters. Punch & Associates’ risk-averse investment philosophy also integrates behavioral and contrarian elements that permeate every aspect of Punch & Associates’ process.

### Investment Strategies

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Punch & Associates manages assets by utilizing the following strategies:

**Punch Small Cap Strategy:** The Punch Small Cap Strategy invests in small cap equities with market capitalizations between \$250 million and \$2 billion. This universe contains some 5,000 companies but occupies only 30% of the U.S. stock market. Small cap companies are generally much less efficiently priced than larger companies, and Punch & Associates searches out those companies with minimal Wall Street coverage and lesser investor expectations in order to take advantage of inefficiencies in this space.

Punch & Associates combines intense bottoms-up investment research with elements of behavioral finance to create a portfolio of companies that are purchased at what we believe are compressed valuations. Punch & Associates seeks out sectors and issues with accelerating fundamentals, economically attractive business models and low recognition among the general investing public. These are the areas where original fundamental research provides the most value.

Punch & Associates narrows this small cap universe according to following criteria:

- Sufficient trading volume and liquidity to allow for a full position;
- Conservative capital structure with minimal or no debt;
- Profitable on an operating basis and consistent cash flow generation;
- Predictable revenue and earnings streams and durable business models;
- Prudent capital allocation by managers; and
- Minimal or no Wall Street coverage.

Punch & Associates' aim is to identify the highest quality small cap companies which have the greatest probability of deserving above-market valuations or becoming much larger enterprises over time. Punch & Associates emphasizes proven business models and management teams that have set a clear and realistic path to achieving their goals over the medium-term. At the same time, Punch & Associates attempts to discover these firms before the majority of other investors by limiting ourselves either to those companies with minimal or no sell-side coverage or to those companies with low analyst ratings.

**Punch Large Cap Strategy:** The Punch Large Cap strategy takes a hub-and-spoke approach to building a portfolio of large cap equities. This means that a "hub" of closed-end or index funds is surrounded with "spokes" of concentrated positions in individual stocks taken from the universe of domestic companies with market capitalizations over \$5 billion. Punch & Associates takes a hub-and-spoke approach to investing in this universe because larger companies are generally more widely followed, their prospects generally more widely known, and their share prices more efficiently priced.

The hub portion of the portfolio is where Punch & Associates thinks it can take advantage of the greatest pricing inefficiencies and where original research will yield greater rewards. The investable universe for the hub is comprised of approximately 300 equity closed-end funds whose shares trade on exchanges, often at a significant discount to the net asset value of the funds themselves. The closed-end fund universe contains a broad variety of funds and fund strategies, and its investor base is primarily retail investors. By purchasing these funds at a discount to their net asset value (NAV), Punch & Associates strives to gain exposure to a basket of securities at a discounted price while receiving an above-average yield. Index funds are sometimes used after periods of broad market weakness.

The closed-end fund universe is then narrowed according to the following criteria:

- Market capitalization greater than \$100 million and sufficient trading volume and liquidity;
- Share price over \$5; and
- Dividend or distribution policy that is regular, predictable, and frequent (monthly or quarterly).

The spokes of the portfolio are where Punch & Associates performs fundamental analysis on individual large-cap companies and takes concentrated positions in stocks it thinks will outperform the broader market. While the universe is generally defined as S&P 500 member companies, Punch & Associates

occasionally takes positions in mid-cap companies or companies located abroad. The buy-and-hold approach to owning individual companies in the spoke portion of the strategy enables Punch & Associates to limit turnover and tax consequences. When investigating individual companies, Punch & Associates emphasize durable, high quality franchises, reliable and predictable earnings, reputable management, conservative capital allocation and capital structure, and above-market returns on capital. Punch & Associates believes that it is these characteristics that allow it to find companies worth holding for several years.

**Punch Strategic Total Return (STR):** The Punch Strategic Total Return Strategy was created to manage client accounts that do not meet the firm's minimum investment amount for its other strategies (generally \$100,000), although it can also be suitable for larger accounts as well. STR is a total return strategy that focuses on generating an attractive dividend yield in addition to capital appreciation. Portfolios are constructed utilizing a limited number of closed-end funds, index shares and other pooled vehicles and is benchmarked to the S&P 500 Index.

**Punch Microcap Equity Strategy:** The Punch Microcap Equity Strategy applies a similar investment process as the Small Cap Equity Strategy while screening for companies in the smallest end of the small cap spectrum (less than \$250 million in market capitalization). This segment of the marketplace for publicly-traded companies is made up of thousands of small, under-researched and overlooked companies. The Microcap Equity Strategy is currently offered solely to Accredited Investors and Qualified Clients through a private investment partnership, Punch Micro Cap Partners, LLC (a 3-c-1 exempt fund).

**Punch SMID Cap Equity Strategy:** The Punch SMID Cap Equity Strategy is a small-to-mid cap equity strategy which was created for those investors who seek the benefit of owning growth companies which are purchased at attractive valuations throughout the small- and mid-cap market capitalization range. The portfolio is constructed with companies ranging from \$250 million to \$10 billion in market capitalization.

**Punch Income Strategy:** The Punch Income Strategy invests in a wide variety of securities with the characteristics of producing durable, predictable yields and price appreciation over full market cycles. Incorporating varied yield vehicles to provide total return in both a taxable and tax-efficient manner, the strategy focuses on total return and emphasizes regular cash flow and takes a "reversion-to-the-mean" approach to asset allocation, emphasizing those asset classes that have under-performed over the past three- to five-years.

Securities included in the portfolio include:

- Closed-end funds;
- Preferred stocks;
- Utility equities;
- REIT equities;

- Corporate bonds;
- Municipal bonds; and
- Treasury bonds.

Punch & Associates applies a combination of qualitative and quantitative analysis to identify underresearched opportunities which generate current income and have the potential for long-term capital appreciation. Maintaining a focus on value, Punch & Associates selects securities that have sustainable and durable income streams. Importantly, Punch & Associates takes an opportunistic and active management approach that seeks to take advantage of extreme investor behavior and exaggerated price movements.

## **Risks of Loss**

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### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Options*



Options allow investors to buy or sell a security at a contracted “strike” price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Market Risks*

The profitability of a significant portion of Punch & Associates’ recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Punch & Associates will be able to predict those price movements accurately. Punch & Associates’ strategies do not, however, attempt or depend on its ability to predict the direction of the overall market in the short to intermediate term.

### *Management Through Similarly Managed Accounts*

For certain clients, Punch & Associates may manage portfolios by allocating portfolio assets among various mutual funds / securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Punch & Associates buys, sells, exchanges and/or transfers shares of mutual funds / securities based upon the *investment strategy*.

Punch & Associates’ management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to Punch & Associates’ clients may be limited. For example, various mutual funds or insurance companies may limit the ability of Punch & Associates to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12B (below), Punch & Associates allocates investment opportunities among its clients on a fair and equitable basis.

### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by Punch & Associates in the management of the client’s investment portfolio, the market value of the client’s account and corresponding fee payable by the client to Punch & Associates will be increased. As a result, in

addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to Punch & Associates. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Punch & Associates is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Punch & Associates does not have any required disclosures to this Item.

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

Punch & Associates is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Punch & Associates has described such relationships and arrangements below.

## Item 11. Code of Ethics

Punch & Associates and persons associated with Punch & Associates ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with Punch & Associates' policies and procedures.

Punch & Associates has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Punch & Associates or any of its associated persons. The *Code of Ethics* also requires that certain of Punch & Associates' personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Punch & Associates' *Code of Ethics*, none of Punch & Associates' *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Punch & Associates' clients.

When Punch & Associates is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Punch & Associates is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. Punch & Associates allows its *Access Persons* to trade as part of a block with clients. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

As discussed above in response to Item 4, Punch & Associates is managing member to the *Private Fund*. Punch & Associates may recommend, on a fully disclosed basis, that certain clients invest in the *Private Fund*. As such, a conflict of interest exists to the extent that Punch & Associates recommends that clients invest in *Private Fund*. Punch & Associates does not receive any additional compensation if a client invests in the *Private Fund*. As such, Punch & Associates does not believe this arrangement poses any additional conflict of interest.

Clients and prospective clients may contact Punch & Associates to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, Punch & Associates generally recommends that clients utilize the brokerage and clearing services of the *broker-dealers*.

Factors which Punch & Associates considers in recommending the *broker-dealers* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The *broker-dealers* enable Punch & Associates to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by the *broker-dealers* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Punch & Associates' clients comply with Punch & Associates' duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Punch & Associates determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Punch & Associates seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom Punch & Associates and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. Punch & Associates periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Punch & Associates in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Punch & Associates will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Punch & Associates (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Punch & Associates may decline a client's request to direct brokerage if, in Punch & Associates' sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Punch & Associates decides to purchase or sell the same securities for several clients at approximately the same time. Punch & Associates may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Punch & Associates' clients differences in prices and commissions or other transaction costs that might have been obtained had such

orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Punch & Associates' clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Punch & Associates determines to aggregate client orders for the purchase or sale of securities, including securities in which Punch & Associates' *Supervised Persons* may invest, Punch & Associates generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Punch & Associates does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Punch & Associates determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Punch & Associates may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Punch & Associates in its investment decision-making process. Such research generally will be used to service all of Punch & Associates' clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Punch & Associates does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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Punch & Associates may receive from the *broker-dealers*, without cost to Punch & Associates, computer software and related systems support, which allow Punch & Associates to better monitor client accounts maintained at the *broker-dealers*. Punch & Associates may receive the software and related support without cost because Punch & Associates renders investment management services to clients that maintain assets at the *broker-dealers*. The software and related systems support may benefit Punch &

Associates, but not its clients directly. In fulfilling its duties to its clients, Punch & Associates endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Punch & Associates' receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Punch & Associates' choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Punch & Associates may receive the following benefits from the *broker-dealers* through their respective institutional groups: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services their institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

In addition, Punch & Associates has entered into an agreement with Bloomberg Tradebook to receive discounted rates on subscription services offered by Bloomberg Professional. Punch & Associates is given a credit for Bloomberg's subscription services based on the number of trades executed through the Bloomberg Tradebook system. Punch & Associates' receipt of this benefit creates a conflict of interest since this benefit may influence Punch & Associates' choice of Bloomberg. Punch & Associates is under no obligation to direct any trades to Bloomberg.



### Item 13. Review of Accounts

For those clients to whom Punch & Associates provides investment management services, Punch & Associates monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Punch & Associates provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by the Principal of Punch & Associates Howard D. Punch, Jr. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Punch & Associates and to keep Punch & Associates informed of any changes thereto. Punch & Associates contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives or if the client wishes to impose any reasonable restrictions upon Punch & Associates' management services.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Punch & Associates provides investment advisory services will also receive a report from Punch & Associates that may include such relevant account and/or market-related information such as account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Punch & Associates.

Those clients to whom Punch & Associates provides financial planning and/or consulting services will receive reports from Punch & Associates summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Punch & Associates.

### Item 14. Client Referrals and Other Compensation

Punch & Associates has entered into an agreement with *Fidelity* to participate in the Fidelity Wealth Advisor Solutions program (the “*Solutions program*”), a referral service designed to match high net worth investors with an independent investment advisor. Punch & Associates does not compensate or receive any compensation from *Fidelity* for participating in the *Solutions program*. Punch & Associates’ participation in the *Solutions program* may raise potential conflicts of interest. Although not required by the *Solutions program*, Punch & Associates may be more likely to execute transactions for clients referred through the *Solutions program* with *Fidelity*, consistent with Punch & Associates’ duty of best execution as further discussed above.

## Item 15. Custody

Punch & Associates' *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Punch & Associates through such *Financial Institution* to debit the client's account for the amount of Punch & Associates' fee and to directly remit that management fee to Punch & Associates in accordance with applicable custody rules.

The *Financial Institutions* recommended by Punch & Associates have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Punch & Associates. In addition, as discussed in Item 13, Punch & Associates also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Punch & Associates.

## Item 16. Investment Discretion

Punch & Associates may be given the authority to exercise discretion on behalf of clients. Punch & Associates is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Punch & Associates is given this authority through a power-of-attorney included in the agreement between Punch & Associates and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Punch & Associates takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

## Item 17. Voting Client Securities

Punch & Associates may vote client securities (proxies) on behalf of its clients. When Punch & Associates accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Punch & Associates' Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Punch & Associates' Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Punch & Associates to request information about how Punch & Associates voted proxies for that client's securities or to get a copy of Punch & Associates' Proxy Voting Policies and Procedures. A brief summary of Punch & Associates' Proxy Voting Policies and Procedures is as follows:

- Punch & Associates has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Punch & Associates' then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Punch & Associates devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Punch & Associates' vote on a particular solicitation but can revoke Punch & Associates' authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Punch & Associates maintains with persons having an interest in the outcome of certain votes, Punch & Associates takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

Punch & Associates does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Punch & Associates is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Punch & Associates has no disclosures pursuant to this Item.

**Punch & Associates Investment Management, Inc.**

*a Registered Investment Adviser*

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