

**Item 1: Cover Page**

**Brochure of  
BTR Capital Management, Inc.**

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**March 21, 2012**



**BTR CAPITAL MANAGEMENT, INC.**

This brochure provides information about the qualifications and business practices of BTR Capital Management, Inc. (BTR). If you have any questions about the contents of this brochure, please contact us at 415-989-0100 or [invest@btrcap.com](mailto:invest@btrcap.com), or visit our web site at [www.btrcap.com](http://www.btrcap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

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

BTR is registered with the SEC as an investment adviser (RIA). BTR employs a Chief Compliance Officer and strives to maintain a culture of compliance and excellence. **Registration with the SEC does not, however, imply any particular level of skill or training.** We encourage the reader to carefully scrutinize this document, to directly examine BTR and its operations, and to discuss any potential business relationship with the reader's own knowledgeable business advisers and legal counsel.

**Item 2:       Material Changes**

Since the most recent distributed version of this brochure dated March 15, 2011, material changes to the organization include:

1. On October 3, 2011, Ward Lindenmayer joined BTR as a Senior Vice President, Portfolio Manager, and Research Analyst. Ward will also engage in business development, as do all of BTR's portfolio managers.
2. BTR portfolio manager, Steven Vannelli retired effective August 31, 2011. His portfolio management and analytic responsibilities were transitioned.

<b>Item 3:</b>	<b>Table of Contents</b>	<b>Page</b>
ITEM 1: COVER PAGE.....		1
ITEM 2: MATERIAL CHANGES .....		2
ITEM 3: TABLE OF CONTENTS PAGE .....		3
ITEM 4: ADVISORY BUSINESS .....		4
ITEM 5: FEES AND COMPENSATION .....		5
ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....		6
ITEM 7: TYPES OF CLIENTS .....		6
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....		6
ITEM 9: DISCIPLINARY INFORMATION.....		11
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS .....		11
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....		12
ITEM 12: BROKERAGE PRACTICES.....		14
ITEM 13: REVIEW OF ACCOUNTS .....		17
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION .....		18
ITEM 15: CUSTODY.....		19
ITEM 16: INVESTMENT DISCRETION .....		19
ITEM 17: VOTING CLIENT SECURITIES .....		19
ITEM 18: FINANCIAL INFORMATION .....		20

**Item 4:        Advisory Business**

Founded in 1989 after Lewis Katcher and Stephen Yeatman purchased Sutro Capital Management, BTR is a fee-based SEC-registered investment adviser, headquartered in San Francisco.

BTR is wholly owned and managed by its principals. BTR currently has twelve employees, of whom eight share ownership in the firm. Our largest shareholders are Lewis Katcher - Chief Investment Officer, John Stratton – President, and Stephen Yeatman - Director of Research.

**Advisory Services Offered**

BTR, which stands for Balanced Total Return, provides experienced, professional, discretionary asset management for individuals, foundations, conservatorships, IRAs and retirement plans. We tailor and manage each portfolio according to an individually prepared Guidelines and Objectives Statement, which reflects the specific financial objectives, taxability, and risk tolerance of the client.

BTR manages equities, balanced, and fixed income accounts. Our investment style is conservatively oriented and value-based, for both equity and fixed income investing. We are long-term investors. Also, we are active communicators, take pride in our high level of service, and are dedicated to achieving our clients' goals and objectives.

**Client Imposed Restrictions**

Clients may impose restrictions on investing in certain securities or types of securities, in accordance with their values or beliefs. We request that such guidance be focused and specific.

**Wrap Fee Programs**

BTR does not participate in any wrap fee programs. As indicated below in Item 12, however, BTR may, from time to time, be retained under a so-called wrap fee arrangement in which brokerage and management fee charges are wrapped into a single fee. BTR receives a portion of the wrap fee for its services. The only management difference for wrap-fee accounts is that we make purchase and sale decisions without regard to commission charges.

**Assets Under Management**

As of December 31, 2011, BTR had approximately \$456 million of assets under management, all of which it managed on a discretionary basis.

**Item 5: Fees and Compensation**

BTR's management fee is a percentage of the market value of the assets held in your account. Typically, we charge our clients on the following schedule, for equity and balanced accounts, with a minimum annual fee of \$10,000:

		<u>Fee Rate Per</u> <u>Annum</u>
Amounts less than	\$ 1,000,000	\$10,000
Amounts in excess of but less than	\$ 1,000,000 \$ 3,000,000	1.00%
Amounts in excess of but less than	\$ 3,000,000 \$10,000,000	.75%
Amounts in excess of	\$10,000,000	.50%

In addition we provide fixed income investment management, typically for a 1/2 of 1% fee per annum, with a minimum account size of \$2,000,000 and minimum annual fee of \$10,000.

Fees may vary or be subject to negotiation if account circumstances or the services provided differ from normal. Depending on the relationship, multiple portfolios with a common interest may be combined as one for billing purposes. BTR may waive the minimum size and fee.

Fees are payable quarterly in advance based on the portfolio's market value on the last day of the preceding calendar quarter, or calendar year, as negotiated. You may authorize the custodian of your securities to have BTR's fees deducted from the custody account, or you may choose to pay our fees directly.

BTR's contract may be terminated at any time on 5 days' written notice and without penalty by either BTR or its client. We will prorate the management fee in either case, based on the number of days the contract was in effect during the quarter.

Clients pay an investment management fee to BTR based on the total amount of assets under management, which may include money market investments, exchange traded funds, closed- or open-end mutual funds and other pooled investment vehicles. These types of investments also charge management fees.

In addition to the management fees described above, the client will incur custody fees, brokerage and other transaction costs as described in Item 12 below.

Neither BTR nor any of its supervised persons receives any compensation for the sale of securities or other investment products.

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

BTR does not charge (nor has it ever charged) performance-based fees to its clients.

As described in Item 5 above, investment management fee schedules may vary from client to client, depending on account circumstances. BTR's fees also vary by account size. Thus, there are potential conflicts of interest over portfolio manager time devoted to managing any one account and allocating investment opportunities among its accounts. Furthermore, we may give advice and take action with respect to any of our clients that differs from advice given or the timing or nature of action taken with respect to any other client.

Our policy, to the extent practicable, is to allocate investment opportunities over a period of time in a manner that is generally fair and equitable to all of our clients. With that in mind, all transactions are reviewed by either BTR's Chief Compliance Officer or its Chief Investment Officer.

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

BTR Capital Management works with individuals, families, trusts, estates, conservatorships, foundations, and pension and profit sharing plans.

In general, BTR manages fully discretionary balanced and equity accounts with a minimum dollar value of \$1,000,000, and charges a minimum annual fee of \$10,000. In addition, BTR provides fixed income investment management with a minimum account size of \$2,000,000, also with a \$10,000 minimum annual fee. We reserve the right to waive these minimum requirements.

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

BTR's investment decision-making process begins with asset allocation, which flows directly from our clients' individually prepared Guidelines and Objectives statements. An appropriate portfolio of stocks, bonds, and cash is carefully determined after considering a number of fundamental and technical factors. Among these considerations are the economic outlook and risks, particularly as they relate to current expectations, the buying power available to fuel an expected shift between market sectors, and the relative attractiveness of alternative investments or other uses of client funds. On an ongoing basis, we consider the risk/reward potential of each sector or strategy and determine an appropriate asset allocation for each portfolio objective.

## **Equity Methodology**

As a relatively small organization, BTR makes its major equity decisions on a team basis. We primarily emphasize sector selection, and use a conceptual or thematic approach whenever possible. We formulate a thematic sector strategy, taking into account longer-term social and economic changes and the sectors of the market most likely to benefit from those changes. Once we identify attractive sectors, we analyze potential investments using fundamental, technical and quantitative techniques. Information from a variety of sources, including quantitative screens, direct company contact, industry sources and Wall Street research aids BTR's research effort. Specific buy criteria include how well a company fits our sector/theme preferences, its growth

outlook, balance sheet analysis, a variety of valuation measures, and the quality of its management.

BTR's investment decision makers meet daily to review portfolio holdings, financial market conditions, potential buy candidates and potential sells. We consider selling any company that has reached our price target, has had any fundamental deterioration or has underperformed on a price basis.

Equity holdings include U.S. and foreign companies (generally ADRs) and are diversified, with a typical portfolio containing 25 to 30 equity securities positions. As long-term investors, the average equity holding period is usually approximately three years (average annual turnover of 35%). Equity surrogates include ETFs, convertible bonds and, occasionally, mutual funds. Each of our portfolios is individually managed and monitored by a portfolio manager on an ongoing basis, and is formally reviewed at least monthly.

### **Fixed Income Methodology**

Our approach to fixed income is both basic and conservative. We are monetarists and, as such, we monitor the tone and actions of the Federal Reserve Board, as well as government financing needs, economic strength, and other factors affecting the supply and demand for credit.

We believe that there are only a few important decision points each year with regard to the direction of interest rates and the shape of the quality and yield curves. We choose not to actively trade fixed income holdings. Rather, we emphasize quality and position portfolios to take advantage of expected trends and temporary distortions.

The type of bonds in BTR's portfolios depends on the relative attractiveness of each sector of the bond market and the taxability of each client. Our fixed income investments include U.S. Treasury securities, government agency bonds, corporate issues, and both tax-exempt and taxable municipal bonds. We perform research on the creditworthiness of bond issuers and on the fair value of bonds relative to their credit quality.

Another important factor in achieving favorable fixed income performance is obtaining the best price when buying or selling a bond. Tax-exempt municipal bonds, for example, typically trade infrequently, with varying prices available for the same bond. Through our relationships with multiple fixed-income broker-dealers, we have access to a range of bond inventories, bond research, and trading. Because BTR does not receive trading commissions or hold any inventories of bonds, we have no financial incentive to steer clients toward any particular issue.

### **General Risk of Loss Statement**

Before entering into an agreement with BTR, you should carefully consider:

1. That investing in securities involves risk of loss that you should be prepared to bear;
2. That securities markets experience varying degrees of volatility;

3. That over time your assets may fluctuate and at any time be worth more or less than the amount you invested; and
4. Committing to BTR's management only those assets that you believe you will not need for current purposes and that can be invested on a long-term basis, usually a minimum of three to five years.

## **Risk of Loss**

Risk management is crucial to every aspect of the investing challenge. We address risk on five levels:

1. Fundamental Philosophy;
2. Advisory Firm Structure and Decision Making;
3. Information Systems and Data Sources;
4. Portfolio Management; and
5. Individual Positions.

## **Fundamental Philosophy**

The first level of risk occurs in relation to an advisory firm's fundamental approach to investing. At this level, risks may include:

1. ***Conflict of Interest*** – The risk that the firm will put its own interests ahead of client interests.
2. ***Unjustified Aggressiveness*** – The risk that the investment team will stretch for high returns without proper regard for accompanying risks, thereby failing to adequately protect against losses.
3. ***Principal Risk*** – The risk of a reduction in value of currently held investment assets.
4. ***Opportunity Risk*** – The risk of missing an opportunity to profit from a prospective investment.

At BTR, client well-being and capital preservation are primary objectives. Therefore, we approach the business with two fundamental convictions:

1. Client interests come first;
2. Portfolio losses carry more impact than portfolio gains. Therefore, principal risk outweighs opportunity risk.

The following conclusions stem from those fundamental convictions:

1. Be fair; *client interests come before the interests of the firm.*
2. Be honest; *integrity and transparency are essential at all times.*
3. Be cautious; *in investing, you win by not losing.*
4. Be mindful; *if you don't understand it, don't invest in it.*



5. Always consider the downside; *avoid unnecessary risk.*
6. Diversify; *seek low correlation and long-term growth potential.*
7. Dig in carefully; *pay particular attention to the people behind the investments.*
8. Do not cut corners; *control stems from knowledge and discipline.*
9. Be consistent; *due diligence is a never-ending process.*
10. Don't take imprudent chances; *excess spending & leverage amplify problems.*
11. Always seek underlying value; *investment cushions provide protection.*

### **Advisory Firm Structure**

The second level of investment risk relates to the inner workings of an advisory firm. At this level, risks may include:

1. **Control Risk** – The risk of losses due to fraud and/or operational negligence.
2. **Incentive Risk** – The risk of losses due to a divergence of interest between clients and the investment team that makes decisions or recommendations.

BTR addresses **Control Risk** from several directions, including:

1. **Financial and Workflow Controls** – We structurally separate BTR's investment activities from its operational activities. This enables us to implement cross-checking, signature régimes, and other controls that foster ongoing security and simplicity.
2. **HR Controls** – We employ a policy of reference and background checking with staff members. We maintain transparent compensation plans that encourage alignment of interests. We also implement cross-training, process reviews and other workflow controls to insure stable execution.
3. **Compliance Controls** – We maintain compliance controls, which are also good for business because they impose an additional layer of protection and transparency.

To avoid **Incentive Risk**, BTR employs a simple, consistent and transparent fee structure. One hundred percent of BTR's fees derive from our advisory services. We do not receive financial remuneration from any custodian or other third-party service provider, thus avoiding creating incentive for our investment team to recommend investments or services that are not in the best interests of our clients. We do not receive performance fees, further avoiding incentive to make imprudent investments to chase high returns.

### **Information Systems and Data Sources**

The third level of risk involves the quality and reliability of the systems and research data employed by an advisory firm. BTR maintains five primary system types:

1. Investment Analytics;
2. Investment Accounting and Reporting;
3. Client Relationship Management;

4. Operations and Compliance; and
5. Data Backup and Business Continuity.

BTR has invested and continues to invest significant resources to ensure that the firm's systems and data sources are effective, stable, accurate and insightful.

## **Portfolio Management**

The fourth level of risk involves the quality and stability of individual portfolios. Four risk factors merit particular attention:

1. ***Portfolio Construction Risk*** – The risk that the performance characteristics of an investment portfolio will not properly reflect the client's willingness and/or ability to tolerate losses;
2. ***Concentration Risk*** – The risk that a single investment or group of investments can have a disproportionately negative impact on the value of the portfolio;
3. ***Operational Risk*** – The risk that mistakes in day-to-day portfolio execution could reduce gains or generate losses;
4. ***Decision Risk*** – The risk that decisions related to strategy, tactics, or other factors could generate losses in the portfolio.

We address ***Portfolio Construction Risk*** through an individually prepared investment roadmap that culminates in the creation of a unique set of Guidelines and Objectives for each client. The Guidelines and Objectives Statement is a clear and simple document that specifies the risk/reward tradeoffs and resulting performance characteristics that we and the client would expect the portfolio to deliver.

BTR Portfolio Managers attempt to spread risk across a prudent number of opportunities to reduce ***Concentration Risk*** through diversification. The objective is to protect the portfolio from the possibility that a single investment or concentrated group of investments can generate substantial losses that will disproportionately bring down the value of the portfolio.

BTR manages ***Operational Risk*** by applying processes, check-points and information systems to almost everything we do. When a process is in place and tracked appropriately, we can measure its effectiveness. When an exception arises, we can resolve it quickly.

To control ***Decision Risk***, BTR uses a team approach to all of our major investment decisions, including economic overview, market outlook, industry concentration and security selection. At our daily research meeting, each portfolio manager is encouraged to provide input and feedback. This process is intended to provide thoughtful checks and balances that can reduce the risk of fundamental mistakes.

## **Individual Investment Positions**

The fifth level of risk involves the value and performance characteristics of individual investment positions. Several factors come into play at this level, including:

1. **Market Risk** – The risk that the underlying market for a certain asset class or geography will suffer a negative impact stemming from an economic shock, a temporary supply/demand situation, or other dynamic. When this happens, individual positions can drop in value, even if the inherent health and performance of the underlying company or commodity remains strong. Market risk applies to all asset types, classes, and strategies.
2. **Security Selection Risk** – the risk that the individual company, financial characteristic or physical attribute that drives the inherent value of a security will fail to perform or manifest as expected, thereby reducing the price of that security. As with market risk, security selection risk applies across all asset types, classes, and strategies.
3. **Default Risk** – The risk that a borrower will fail to repay the debt that underlies a security, thereby depriving the owner of expected cash flows. Default risk applies particularly to fixed income investments, including loans, bonds, certificates of deposit, and debt-related derivative instruments.
4. **Yield Risk** – The risk that the rate of interest or level of dividends delivered by a security falls short of expectations, either through floating rate moves, management decision making or debt restructuring. Yield risk applies especially to fixed income investments, but owners of certain equity-based securities, including public stocks, master limited partnerships (MLP's), and real estate investment trusts (REIT's) also have exposure.
5. **Pre-payment Risk** – The risk that issuers of a fixed income security prepay the underlying debt in order to refinance at a lower interest rate, thereby depriving the holder of the expected cash flows at the higher rate of interest.
6. **Taxation Risk** – The risk that the performance characteristics of an individual investment will result in high degree of taxation by various government agencies.
7. **Counter-Party and Custodial Risk** – The risk that one or more of the institutions that contractually agree to protect an asset or fulfill a derivative obligation will fail to live up to their commitment, thereby reducing or eliminating the value of an individual security.

#### **Item 9: Disciplinary Information**

Neither BTR Capital Management nor any of its key staff have been involved in disciplinary events that are in any way material to a client's or prospective client's evaluation of this advisory business or the integrity of our management.

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

Neither BTR nor any of its key staff is registered as a broker-dealer or as a representative of a broker-dealer.

Neither BTR nor any of its key staff is registered as a futures commission merchant, commodity pool operator or a commodity trading adviser

Neither BTR nor any of its key staff has any material relationships that would present a possible conflict of interest to BTR's advisory business or clients.

BTR does not use or select other advisers or third party managers. BTR manages all of its client assets.

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

As a part of its compliance manual, BTR has adopted and implements a formal Code of Ethics that addresses the following areas: General Principals, Employee Trading, Insider Trading, Prohibition of Manipulative Practices and Gifts.

BTR will provide you with a copy of BTR's Code of Ethics on request and without charge.

### **General Principles**

The principals of BTR have committed the firm and its employees to conduct themselves with honesty, integrity and professionalism at all times. Following are the general principles to which we and all of our employees are expected to adhere:

- Place client interests first.
- Conduct all personal securities transactions in a manner consistent with the Code of Ethics. Avoid conflicts of interest or abuse of an employee's position of trust and responsibility.
- Keep information concerning the identities, security holdings and financial circumstances of clients confidential.
- Remain independent. Independence in the investment decision-making process is paramount – uninfluenced and focused on our clients' best interests.

These general principles govern all conduct, whether or not such conduct is also covered by specific standards and procedures set forth in our employee compliance manual.

Failure to comply with BTR's Code of Ethics may result in employee disciplinary action, including but not limited to termination. Our employees must promptly report violations of the Code of Ethics or compliance procedures to BTR's President/Chief Compliance Officer.

### **Employee Trading**

As part of our compliance program, we have adopted policies and procedures that impose conditions and restrictions on securities transactions for the direct accounts of our employees and other such accounts in which our employees have a direct or indirect beneficial interest. These policies are based on legal, regulatory, professional, and ethical considerations. Such policies and procedures are designed to prevent, among other things, any improper or abusive conduct by our employees whenever any potential conflict of interest may exist with respect to any BTR client.

## **Insider Trading**

BTR has adopted and implements a strict policy against misusing material non-public information. BTR employees are required to read, understand and annually sign BTR's Insider Trading Policy.

## **Prohibition of Manipulative Practices**

These prohibitions against manipulative trading practices mean that no employee should, alone or with others, for either a client account or a proprietary account, engage in trading or apparent trading activity in a security for the purpose of:

1. Inducing the purchase or sale of such security by others; or
2. Causing the price of a security to move up or down, and then taking advantage of such price movement by buying or selling the security at the "artificial" price.

## **Gifts**

BTR's employees (and their spouses and relatives) may not accept or offer inappropriate gifts, favors, entertainment, special accommodations or other things of material value that would influence the employees' decision making or make them feel beholden to a person or firm.

## **Privacy Policy**

BTR has adopted and implements a privacy policy that complies with applicable law. We acknowledge the importance of client privacy and security of the information relating to clients and their accounts. BTR collects non-public information about clients from the following sources:

- Information we receive about clients on applications and other forms
- Information given to us in writing, by email, and orally; and
- Information about client transactions with us or others

We do not disclose any non-public personal information about our existing or former clients without the client's authorization, except as required by law or in response to inquiries from governmental or regulatory authorities. We also may disclose that information to unaffiliated third parties (such as brokers or custodians) only as permitted by law and as needed for us to provide agreed services to clients.

BTR and its employees are committed to these privacy policies and practices. We maintain physical, electronic, and procedural safeguards to protect client non-public personal information.

## **Item 12: Brokerage Practices**

### **Broker Selection**

BTR does not maintain custody of assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank.

Portfolio transactions for your account are executed through a broker-dealer and many clients leave the selection of broker-dealers to BTR, although a client may reserve the authority to direct the use of a particular broker-dealer to execute all or a portion of the client’s portfolio transactions. In the absence of a client-designated broker of record, we have complete discretion to select the brokers to be used and the commission rates to be paid.

In selecting a broker for any transaction or series of transactions, we may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution, clearance, settlement and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, on-line access to computerized data regarding clients’ accounts, and other matters involved in the receipt of brokerage services generally.

If you choose to designate a broker of record, a majority or all of your transactions will be affected through that broker and his or her brokerage firm. If you make this choice, you should understand that BTR’s advisory service does not include the negotiation of commission rates.

You may, if you desire, negotiate commission rates with the broker or other representatives of the brokerage firm designated by you. The factors involved in such negotiation may include the size of your brokerage account, the brokerage firm’s policy with respect to a representative and other factors. You should further understand that unless you have negotiated a lower rate, you should expect that the designated brokerage firm will charge commissions based on the brokerage firm’s established non-discounted commission schedule.

Commissions charged on designated broker accounts are subject to the direct negotiation between you and the broker. In the absence of direct negotiations between you and the broker, we reserve the right to try to lower the fees and/or commissions charged, depending on the size or number of trades for the account, and the number and range of supplemental services that the broker may be providing to your account. Moreover, you should understand that fees or commissions may vary from client to client as the result of the application of a prior fee schedule, depending on your account inception date.

### **Directed Brokerage**

BTR may recommend to a client that it designate a specific broker-dealer as custodian of client assets and for the purchase and sale of securities for a client’s account. In doing so, BTR considers the broker-dealer’s execution, clearance and settlement capabilities, whether the broker-dealer offers insurance in excess of the insurance afforded by the Securities Investor

Protection Corporation, BTR's knowledge of the broker-dealer's financial stability and capabilities, and the broker-dealer's willingness to negotiate commission rates. The value of research furnished to us by the broker-dealer is also a factor.

If you direct the use of a particular broker-dealer, you do so even though BTR might be able to obtain more favorable net prices and execution from another broker-dealer in particular transactions, and this may cost you more money. If you designate use of a particular broker-dealer, including directing use of a broker-dealer that will also serve as custodian, whether or not recommended by BTR, you should consider whether commission expenses, execution, clearance and settlement capabilities, and whatever amount is regarded as allocable to custodian fee, if applicable, will be comparable to those otherwise obtainable by us.

If you direct us to use a particular broker-dealer, you may lose the possible advantages that you could otherwise derive from aggregating your orders with orders for our other clients.

While BTR does not currently participate in any sponsored wrap fee programs, it may from time to time be retained under a so-called "wrap fee" arrangement in which a broker-dealer executes the client's portfolio transactions without separate commission charges, monitors our performance, and may also act as custodian, or provides some combination of these or other services, all for a single fee. Typically, in a wrap fee arrangement, we will receive a management fee calculated on our standard fee schedule. In evaluating such a program, you should understand that BTR does not negotiate brokerage commissions. Transactions are effected "net" and a portion of the wrap fee replaces commissions. We will generally execute trades only with the referring broker to avoid incurring the incremental brokerage costs that the use of other brokers would incur. In evaluating a wrap fee arrangement, you should consider whether, depending on the level of the wrap fee, the amount of portfolio activity, and the value attributed to monitoring, custodial and any other services provided, the wrap fee would exceed the aggregate cost of such services if they were separately provided and BTR were free to choose broker-dealers to execute your portfolio transactions.

### **Research and Other Soft Dollar Benefits**

BTR may purchase from a broker or allow a broker to pay for certain research services, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, periodical subscription fees, consultations, performance measurement data, on-line pricing, news wire charges, quotation services and the like (a "soft dollar" relationship). Broker-dealers providing soft dollar products or services include broker-dealers that execute principal and agency transactions for BTR's clients.

BTR may pay a brokerage commission in excess of that which another broker-dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services and soft dollar relationships. In such a case, however, we will determine in good faith that such commission is reasonable in relation to the value of brokerage, research and other services, and soft dollar relationships provided by such broker-dealer, viewed in terms of either the specific transaction or our overall responsibilities to the portfolios over which we exercise investment authority. You may, however, pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on your account's trading

activity. You may direct us to use a broker that does not provide soft dollar benefits to BTR. Nevertheless, the research and other benefits resulting from our research soft dollar brokerage relationships would benefit all of our managed accounts or our operations as a whole.

BTR's relationships with brokerage firms that provide soft dollar services to us influence our 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. When BTR uses client brokerage commissions to obtain research or other products and services, we receive a benefit because we do not need to produce or pay for the research, product or service. BTR has an incentive to select or recommend a broker-dealer based on our interest in receiving research, products or services, rather than based on your interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that BTR uses soft dollars to pay expenses we would otherwise be required to pay ourselves.

During the 2011 calendar year, BTR used client commission dollars to gain access to a broad range of Wall Street brokerage firm research, such as that of Bank of America Merrill Lynch, Citigroup Global Markets, UBS Financial Services, and Deutsche Bank Securities Inc. In addition, client commission dollars were placed with Capital Institutional Services to pay for research publications from the independent economic and stock market research firm, BCA Research.

### **Charles Schwab Relationship**

Charles Schwab & Co. (Schwab) makes available to BTR other products and services that benefit us but may not benefit our clients' accounts. Some of these other products and services assist us in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of BTR's fees from its clients' accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of BTR's accounts, including accounts not maintained at Schwab. Schwab also makes available to BTR other services intended to help us manage and further develop our business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to BTR by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. While as a fiduciary we try to act in our clients' best interests, we may recommend that clients maintain their assets in accounts at Schwab in part because of the benefit to BTR of the foregoing products and services, and not solely due to the nature, cost or the quality of the custody and brokerage services provided by Schwab, which may create a potential conflict of interest.



## **Brokerage for Client Referrals**

BTR may direct a certain amount of brokerage to a broker in return for the broker's referral of prospective clients. The direction of brokerage to a broker in exchange for investor referrals creates a conflict of interest in that we have an incentive to refer our clients' brokerage business to brokers to which we might not otherwise direct brokerage transactions. We understand, however, and scrupulously comply with our fiduciary obligations to our advisory clients. We periodically review the commission rates paid by our advisory clients to determine that they are competitive with commissions paid by clients of investment advisers that provide services similar to BTR. During the fiscal year 2011, BTR did not select brokers in exchange for client referrals.

## **Aggregation**

BTR may aggregate securities sale and purchase orders for you with similar orders being made contemporaneously for other accounts managed by us. When we do, we may determine and charge or credit you the average price of all securities purchased or sold in the aggregated transaction. As a result, the price may be less favorable to you than it would be if we were not executing similar transactions concurrently for other accounts. When BTR is unable to purchase or sell the full amount of a security that it believes is appropriate for all of its clients, we will allocate such purchases and sales among our clients over time in a manner that we believe is fair to all of our clients.

## **Cross Trades**

From time-to-time, we may determine that particular securities are no longer appropriate for one account but may be a desirable addition to another. When such accounts are held at a common custodian, the securities may be transferred from one account to another, through a securities cross transaction. We will execute such transactions through an outside brokerage or custodial firm, at a price set by the broker or custodian, typically midway between the bid and offered prices at that time. Brokerage charges for securities cross transactions may or may not be less than the normal levels.

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

Lewis Katcher, Chairman of the Board, John Stratton, President, Stephen Yeatman, Jonathan Butler, Mark Keeling, Adam Schneiberg, and Ward Lindenmayer, Senior Vice Presidents, are BTR's portfolio managers. Each portfolio manager has primary responsibility for a varying number of portfolios (less than 100). A portfolio manager reviews each client portfolio at least monthly. John Stratton or Lewis Katcher reviews daily transaction reports.

BTR clients receive statements from their custodians every month during which there is activity in their accounts. BTR provides its clients with a quarterly overview and financial market outlook and written portfolio detail reports. Our taxable accounts also receive year-end realized gain/loss and income reports.

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

### **Client Referrals and Compensation to BTR**

BTR receives no monetary compensation from any source aside from the management fees charged to its clients. As a part of our referral arrangement with Schwab, we receive an economic benefit from Schwab in the form of the support products and services it provides to us and other independent investment advisers whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are discussed in Item 12 above. The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

### **Client Referrals and Compensation to Others**

For marketing purposes, we have entered into a number of written third party solicitation agreements for referrals to BTR. Under such agreements, the third party may refer or solicit clients to us and receive a portion of the management fee charged, per negotiation. Any compensation to third parties for client referrals is fully disclosed to the client concurrent with or prior to executing an investment management agreement.

### **Schwab Advisor Network Disclosure**

BTR receives client referrals from Schwab through our participation in Schwab Advisor Network (the Service). The Service is designed to help investors find an independent investment adviser. Schwab is a broker-dealer independent of and unaffiliated with BTR. Schwab does not supervise BTR and has no responsibility for managing our clients' portfolios or our other advice or services. We pay Schwab fees to receive client referrals through the Service. BTR's participation in the Service may raise potential conflicts of interest described below.

BTR pays Schwab a Participation Fee on each referred client's account maintained in custody at Schwab and a Non-Schwab Custody Fee on each account maintained at or transferred to another custodian. The Participation Fee is a percentage of the value of the assets in the client's account. BTR pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to BTR quarterly and Schwab may increase, decrease or waive it from time to time. The Participation Fee is paid by BTR and not by the client. BTR has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs we charge clients with similar portfolios who are not referred through the Service.

BTR generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by Schwab or if assets in the account are transferred from Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fee BTR generally would pay in a single year. Thus, we have incentive to recommend that client accounts be held in custody at Schwab. In addition, if a potential client is referred by Schwab, BTR may not refer that potential client to any other financial services provider but only back to Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of our clients who were referred by Schwab and those referred clients' family members living in the same households. Thus, we have incentive to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit BTR's fees directly from the accounts.

For an account of a BTR client maintained in custody at Schwab, Schwab generally does not charge the client separately for custody but will receive compensation from the client in the form of commissions or other transaction-related compensation on securities trades Schwab executes for the client's account. The client also pays Schwab a fee for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, we may have incentive to cause trades to be executed through Schwab rather than another broker-dealer. Trades for client accounts held in custody at Schwab may be executed through broker-dealers other than broker-dealers that execute trades for BTR's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices from trades for other accounts that are executed at other broker-dealers.

#### **Item 15: Custody**

All client assets are held in custody by unaffiliated broker-dealers or banks. Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct a broker-dealer or bank to deduct our advisory fees directly from your account. You will receive account statements directly from the broker-dealer or bank every month during which there is activity in your account. Those statements will be sent to the email or postal mailing address you provided to them. You should carefully review those statements promptly when you receive them. We also urge you to compare the broker-dealer or bank account statements to the periodic statements you receive from us.

#### **Item 16: Investment Discretion**

BTR manages client accounts only on a discretionary basis. You may exempt certain securities from our management. In that case, we will segregate those assets from your portfolio performance, and we will not charge you a management fee on those assets.

BTR's advisory contract gives us the authority to buy and sell securities in a designated client account. The custodian requires a limited power of attorney signed by you to allow us to transact within that account.

#### **Item 17: Voting Client Securities**

BTR will not be obligated to vote, may refrain from voting, and will not be required to direct the client's agent to vote proxies on behalf of the client, unless we otherwise agree in writing. The only accounts for which BTR will vote proxies will be accounts that are subject to the Employee Retirement Income Security Act of 1974. All other accounts will receive proxy materials directly from the custodian holding the client's assets.

BTR's policy is to vote all proxies over which we have voting authority in the best interest of our clients.

1. We will ordinarily vote with management on routine matters.
2. We will almost always vote against proposals that make it harder for shareholders to effectively vote their interests, such as proposals to create staggered terms for directors, eliminate cumulative voting for directors, or require supermajority approval.
3. We will usually vote to implement or retain shareholder rights, and will usually vote against proposals that make acquisition of the company more difficult.
4. We will usually vote against shareholder proposals that are non-business related.

If a potential material conflict of interest exists, BTR will vote a client's proxy according to an alternative procedure which may include, for example, causing the proxies to be "echo voted" or "mirror voted" in the same proportion as the votes of other proxy holders, causing the proxies to be voted in accordance with the recommendations of an independent service provider, notifying affected clients of the conflict and seeking a waiver to permit BTR to vote under its usual policy, abstaining from voting the proxies, or forwarding the proxies to clients so that clients may vote the proxies themselves. Affected clients would generally be notified if such a procedure is used.

A copy of BTR's proxy voting policy is available on request. A client's proxy voting record is also available on request by that client.

### **Class Action Litigation**

BTR has engaged Chicago Clearing Corporation (CCC) to provide class action litigation monitoring and securities claim filing services. CCC's sole business is securing class action claims. CCC monitors each claim our clients have, collects applicable documentation, interprets the terms of each settlement, files appropriate claim forms, interacts with administrators, and distributes awards on behalf of our clients. CCC charges a contingency fee of 20%, which is subtracted from your award when the award is paid.

### **Item 18: Financial Information**

Not applicable.