

Firm Brochure (Part 2A of Form ADV)  
March 30, 2012

## **CLEARWATER MANAGEMENT COMPANY, INC.**

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**This brochure provides information about the qualifications and business practices of Clearwater Management Company, Inc. If you have any questions about the contents of this brochure, please contact us at 651-228-0935. 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. Registration of an adviser with the SEC does not imply a certain level of skill or training.**

**Additional information about Clearwater Management Company, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2 - Material Changes**

This brochure has been amended since the last update of CMC's brochure dated March 31, 2011 to indicate that CMC has a new private fund client and to update the fees paid to CMC by the mutual fund portfolios of Clearwater Investment Trust.

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#### **Item 4 - Advisory Business**

Clearwater Management Company, Inc. (“CMC”), founded in 1987, provides investment supervisory services as the investment manager overseeing sub-advisory arrangements to Clearwater Investment Trust (the “Trust”), a registered investment company, and its separate series. CMC also serves as the investment adviser to private limited partnerships. The Trust and its series and the private limited partnerships are the only clients for which CMC provides investment supervisory services. “Investment supervisory services” is defined as the giving of continuous advice to clients as to the investment of assets on the basis of the individual needs of each client. Such services are provided on a discretionary basis. CMC also serves as the manager to a third party investment fund.

The Clearwater International Fund, Clearwater Growth Fund, Clearwater Small Cap Fund and Clearwater Tax-Exempt Bond Fund (together, the “Funds”) each comprise a separate series of the Trust. CMC has entered into three investment advisory agreements with the Trust pursuant to which CMC is responsible for supervising the management of the Funds.

CMC has retained Parametric Portfolio Associates (“Parametric”), Heartland Advisors, Inc., Knightsbridge Asset Management, LLC and Osterweis Capital Management, LLC as sub-advisers to the Clearwater Growth Fund. CMC has retained Kennedy Capital Management and Keeley Asset Management Corp. as sub-advisers to the Clearwater Small Cap Fund. CMC has retained Sit Fixed Income Advisers II, LLC as a sub-adviser to the Clearwater Tax-Exempt Bond Fund. CMC has retained Parametric, AXA Rosenberg Investment Management, LLC, Artisan Partners Limited Partnership and Eagle Global Advisors, LLC as sub-advisers to the Clearwater International Fund. Under the sub-advisory agreements, each sub-adviser is compensated by CMC for its investment advisory services to the applicable sub-portfolio of each Fund. CMC has also entered into a subadvisory agreement with FCI pursuant to which CMC compensates FCI based on hourly fees of FCI staff.

CMC serves as the general partner and manager to four private limited partnerships (collectively, the “Partnerships”). In its role as manager, CMC selects and oversees investments for the Partnerships. CMC has entered into an agreement with a federally registered investment adviser (the “Unaffiliated Adviser”) to provide management services to a private limited partnership (the “Third-Party Fund” and, together with the Partnerships, the “Private Funds”).

CMC is owned by members of its board of directors and senior management. No shareholder owns 25% or more of the Company.

As of December 31, 2011, CMC managed approximately \$1.9 billion in assets on a discretionary basis.

#### **Item 5 - Fees and Compensation**

##### **The Trust**

The compensation of CMC for services rendered to the Funds is calculated in accordance with the fees outlined below and as set forth in the Fund’s prospectus. From this compensation, CMC

pays the expenses of the Funds, including the fee charged by the sub-advisers for investment advisory services the sub-adviser performs on CMC's behalf. Under its advisory agreement with each Fund, CMC is also responsible for paying directly or reimbursing the Funds for all direct expenses other than commissions and other direct charges relating to the purchase and sale of portfolio securities and other assets, taxes, interest and extraordinary expenses, including without limitation, litigation expenses. For these services, CMC is contractually entitled to receive a fee from the Clearwater Growth Fund, the Clearwater Small Cap Fund, the Clearwater Tax-Exempt Bond Fund and the Clearwater International Fund equal to 0.90%, 1.35 %, 0.60% and 1.00%, respectively, of each Fund's average daily net assets. However, due to voluntary fee waivers, CMC has reduced its management fees to 0.60%, 1.00%, 0.36% and 0.70%, respectively, of each of the Clearwater Growth, Small Cap, Tax-Exempt and International Fund's average daily net assets. It is CMC's current intent to continue these voluntary fee reductions indefinitely. Nonetheless, CMC may terminate these voluntary fee reductions at any time.

### **Private Funds**

CMC charges a quarterly management fee of 0.25% of each Partnership's committed capital in its first year of operation. The quarterly management fee is reduced in subsequent years as set forth in each Partnership's confidential private placement memorandum. CMC is responsible for its overhead, administrative costs and operating expenses, including, without limitation, salaries of its associates and employees. However, the Partnerships pay or reimburse CMC, in its role as general partner, for all costs and expenses associated with the administration of the Partnerships. CMC is reimbursed for all direct expenses incurred in connection with the business of the Partnerships, including fees and expenses for outside contracted services not normally required to be performed by a general partner, such as legal and auditor's fees, costs of valuing assets and compensation payable to the general partner, costs of insurance carried for the benefit of the Partnerships, and all transactional costs associated with the purchase and sale of portfolio securities.

In its role as manager to the Third-Party Fund, CMC's responsibilities include the initial approval, ongoing monitoring and evaluation, and authorization to terminate the Unaffiliated Adviser. CMC receives from the Third-Party Fund a fee calculated at a rate of 0.05% per annum of each limited partner's ending capital account balance for the relevant month (as adjusted by the Third-Party Fund's net income or net loss allocated to such limited partner).

### **Other Information**

CMC's management fees are generally deducted from the assets of the Funds and the Private Funds and are charged monthly or quarterly in arrears. Provisions relating to terminations of advisory agreements are outlined within each advisory agreement. Termination of an advisory agreement by a client will not affect the transactions that CMC (or sub-adviser, as applicable) has initiated on the client's behalf prior to the effective date of such termination.

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

CMC does not charge any performance-based fees, which are fees based on a share of capital gains or capital appreciation of client assets.

## **Item 7 - Types of Clients**

As stated above in Item 4, CMC provides investment supervisory services, as the investment manager overseeing sub-advisory arrangements, to the Trust, a registered investment company, and its separate series. CMC also provides discretionary management services to the Partnerships, which are unregistered private investment funds.

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

### **Methods of Analysis**

The Funds' sub-advisers utilize their own individual security analysis methods with respect to each of the Funds comprising the Trust. As part of its monitoring process of each sub-adviser, CMC conducts regular conference calls with each sub-adviser, meets with sub-advisers in its offices and conducts periodic on-site visits of each sub-adviser. In addition, CMC requests and reviews information about each sub-adviser's investment strategy, performance, compliance program, financial data and other material deemed relevant. As part of the annual due diligence process, CMC reviews each sub-adviser's Form ADV and marketing materials, as well as independently prepared data. In addition, CMC reviews relevant publicly available SEC filings, financial statements and private offering memoranda. CMC relies on various other sources of information, including research material prepared by broker-sponsored research organizations, financial publications, statistical data and economic surveys.

With respect to the Partnerships, CMC performs initial and ongoing due diligence on potential portfolio investments in accordance with the criteria and processes developed by CMC.

The Unaffiliated Adviser utilizes its own individual security analysis methods with respect to the Third-Party Fund.

### **Investment Strategies**

The Funds' sub-advisers utilize their own investment strategies with respect to each of the Funds comprising the Trust. Descriptions of these investment strategies are set forth in each Fund's prospectus.

CMC has overall responsibility for the management of the Partnerships' investment portfolios. CMC is responsible for allocating the assets of each Partnership between cash reserves and investments in underlying portfolio funds and for reviewing and selecting these underlying portfolio funds. The assets of each Partnership are allocated and reallocated among the underlying portfolio funds based on CMC's investment strategies as set forth in the Partnerships' private offering memoranda.

The Unaffiliated Adviser utilizes its own investment strategies with respect to the Third-Party Fund. Descriptions of these investment strategies are set forth in the Third-Party Fund's private offering memorandum.

### **Types of Investments**

The Fund's sub-advisers, not CMC, have discretionary authority to determine, subject to each Fund's investment policies and restrictions, the securities in which the Funds advised by them will invest, which may include: domestic and foreign equity securities, warrants, corporate debt securities (including high yield securities), mortgage-backed securities, derivatives, securities index futures contracts, foreign currency exchange contracts, delayed settlement securities, commercial paper, certificates of deposit, municipal securities, investment company securities, United States government securities, options and futures contracts, and options on futures contracts. Information about the types of investments upon which the sub-advisers offer advice is included in the Form ADV for each respective sub-adviser.

The Partnerships invest in a portfolio of securities comprised of underlying private funds, including:

- interests in existing and newly formed private partnerships, both general and limited, and other private investment vehicles, including funds-of-funds;
- private equity funds; and
- such other investments determined by CMC, in its capacity as general partner.

The Partnerships may retain assets in cash or cash equivalents.

### **Risk of Loss**

Risk of loss is inherent in any investment of securities. Investments by the Trust and the Private Fund (collectively, the "CMC Funds") may be subject to the following risks:

- **Management Risks.** CMC will manage the business and affairs of the CMC Funds and the investment of their assets. The success of the CMC Funds' strategy also depends on CMC's skill in selecting sub-advisers and underlying private funds and allocating assets to sub-advisers and underlying private funds, as well as each sub-adviser's skill in managing the respective portfolio. CMC will have no control over the day-to-day operations of any sub-adviser. As a result, there can be no assurance that every sub-adviser will invest on the basis expected by CMC. The CMC Funds may have multiple managers who make investment decisions independently. It is possible that their security selection process may not complement one another and a Fund may not have the optimal exposure for a given security, industry sector or market capitalization.
- **Private Funds Risk.** The Private Funds will invest in private investment partnerships and other private investment vehicles ("Investment Funds"). Private Investment Funds are not registered under the Investment Company Act of 1940, which regulates mutual funds. Investors in Investment Funds, therefore, are not accorded the protective measures provided by such legislation. Accordingly, activities of Investment Funds are subject to less state and federal regulation and supervision than a registered investment company (a mutual fund).

- **Investment Funds.** The investment performance of underlying Investment Funds, and therefore the performance of the Private Funds, is affected by the investment performance of the underlying investments held by the Investment Funds. The ability of each Private Fund to achieve its investment objective depends in part on the ability of the Investment Funds to meet their investment objectives and on the decisions of the managers of the Investment Funds. There can be no assurance that the investment objective of the Private Funds or any Investment Fund will be achieved. Through their investments in the underlying investments, the Investment Funds, and therefore the Private Funds, are subject to the risks of the underlying investments.

CMC does not guarantee rates of return on investments for any time period. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products. Past performance does not guarantee future results, and there is no guarantee that a Fund's investment objectives will be achieved.

### **Item 9 - Disciplinary Information**

There have been no legal or disciplinary events involving CMC or any of our management personnel involving investments or otherwise material to a client's evaluation of our advisory business or the integrity of our management.

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

Without conceding that CMC is a "related person" of the Trust, CMC provides investment supervisory services to the Trust as the investment manager overseeing sub-advisory arrangements.

Fiduciary Counselling Inc. ("FCI"), a registered investment adviser, provides accounting, administrative and compliance services on behalf of CMC to the Trust and the Partnerships. FCI also provides administrative and other support services on behalf of CMC to the Third-Party Fund. In addition, FCI provides certain investment services to CMC and the Trust pursuant to a subadvisory agreement. CMC and FCI have a long-standing business relationship and the same chief compliance officer, provide services to common clients and share office space. In addition, certain of CMC's directors are clients of FCI. FCI is not considered a "related person" of CMC because it is not an "advisory affiliate" or under "common control" with CMC.

Members of CMC's Board of Directors are also clients of FCI and shareholders of the Funds. FCI clients may invest in private funds or companies affiliated with CMC directors or related entities. Some of the directors may also invest in the Private Funds and/or hold interests in Investment Funds held by the Private Funds, either directly or through related entities. Further, certain directors have familial relationships with each other, with FCI clients and with members of the Trust's Board of Trustees. The directors' multiple relationships may present conflicts of interest in serving the interests of CMC's clients because of their own personal and family interests. However, CMC has structures and procedures in place to address these potential conflicts, including CMC's management structure and oversight by CMC's compliance personnel.



Jennifer Lammers serves as Chief Compliance Officer (“CCO”) to CMC and the Trust. Ms. Lammers also serves as CCO and Chief Financial Officer to FCI. Due to Ms. Lammers’ multiple positions with these entities, she may at times face inherent conflicts of interests in serving the interests of CMC’s clients as well as the financial and other interests of CMC, the Trust and FCI. However, CMC has structures in place to address this potential conflict, such as oversight by CMC’s Board of Directors.

Philip Pascoe, the Chairman, Treasurer and a director of CMC, is a registered broker-dealer agent and investment advisory representative of UBS Financial Services, Inc. (“UBS”). The sub-advisers for the Funds may select UBS to effect transactions in client accounts subject to the Trust’s affiliated brokerage procedure. Because of Mr. Pascoe’s position with CMC, as well as his position with UBS, CMC and Mr. Pascoe may at times be faced with inherent conflicts of interest in serving the interests of CMC’s clients. However, CMC has policies in place to address this potential conflict, including the Trust’s affiliated brokerage procedures and review by the Trust’s Board of Trustees of any trading activity conducted through UBS by the sub-advisers.

Samuel Carr, a director of CMC, is the majority owner of Alpha Windward, LLC, a registered investment adviser. Alpha Windward, LLC manages a private fund in which certain FCI clients who are related to Mr. Carr have invested.

As described above in Item 4, CMC has entered into subadvisory agreements with various sub-advisers to the CMC Funds.

FCI uses the services of Fidelity Family Office Services and its broker-dealer, Fidelity Brokerage Services LLC (“Fidelity”), for custody, execution and administrative services. CMC has agreed to pay the trade ticket charges otherwise payable by FCI clients to Fidelity with respect to FCI client trades in shares in the Funds.

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

As described in Item 4, above, the CMC Funds are CMC’s only clients. CMC does not invest in securities for its own account; however, certain of CMC’s directors and officers or their related entities may invest in the Private Funds or may own an interest in the individual Investment Funds held by the Private Funds.

Personal securities transactions of CMC’s directors, officers and employees are subject to CMC’s Compliance Policy Manual (including written policies on insider trading) and the Code of Ethics and Personal Trading Policy for the Trust and CMC (the “Code”), which is applicable to transactions involving CMC, its access persons and clients.

Access persons of CMC are required to adhere to standards of conduct outlined within the Code. The Code addresses core principles that CMC has adopted to promote ethical conduct, which CMC believes is premised on the fundamental concepts of openness, integrity, honesty and trust.

The Code prohibits transactions in securities where the investment opportunity should first be offered to a CMC Fund and prohibits short-term trading. Personal securities transactions are subject to pre-clearance and reporting requirements, as well as review by CMC's compliance department.

A copy of the Code is available upon request to CMC.

## **Item 12 - Brokerage Practices**

### **The Trust**

CMC does not directly conduct trading activity on behalf of the Funds. Trading authority is delegated to sub-advisers. The sub-advisers may transact brokerage activities through UBS, a broker-dealer that may be deemed to be affiliated with the Trust due to Mr. Pascoe's position with CMC and UBS. The Trust has adopted procedures governing transactions with affiliated broker-dealers and the Trust's Board of Trustees is responsible for monitoring the use of UBS by the sub-advisers.

It is CMC's policy to require sub-advisers to seek the best execution at the best security price available with respect to each transaction, in light of the overall quality of brokerage and research services provided to it or its clients.

A Fund's sub-adviser generally determines the broker or dealer through whom securities transactions for the Fund's accounts are executed. Subject to the criteria of Section 28(e) of the Securities Exchange Act of 1934, as amended, a sub-adviser may cause a Fund to pay a broker or dealer a brokerage commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of the brokerage and research services provided by the broker or dealer. These payments are commonly referred to as "soft dollars." CMC believes it is important to the investment decision-making process of its sub-advisers to have access to these types of brokerage and research services. The Funds may pay higher than the lowest commission rates available in return for such services. The Funds' brokerage commissions and practices are reviewed as part of the Trust's compliance procedures, which include regular reporting by the subadvisers and an annual report to the Trust's Board of Trustees.

### **Private Limited Partnerships**

With respect to the Partnerships, CMC makes investment decisions only with respect to the Partnerships' investments in a portfolio of securities comprised of underlying Investment Funds. Investments in Investment Funds are typically made directly in the applicable Investment Fund without the use of a broker. If a broker or placement agent is used in connection with an investment in an Investment Fund, the broker or placement agent is selected by the investment manager of the Investment Fund and is paid by the Investment Fund or the Investment Fund's investment manager. CMC may sell or otherwise dispose of a Partnership's portfolio interests in Investment Funds at such times as CMC deems to be most advantageous to the Partnership and its limited partners. CMC does not recommend or make investment decisions with respect to

individual equity or fixed-income securities. Accordingly, the investment managers for the Investment Funds select the brokers for the specific investments that they are making.

CMC, in its role as manager to the Third-Party Fund, does not have investment or brokerage discretion with respect to the Third-Party Fund.

### **Item 13 - Review of Accounts**

#### **The Trust**

A Fund's sub-adviser, subject to the oversight of CMC and the Trust's Board of Trustees, continually reviews the Fund's portfolio in light of the Fund's investment objective and investment policies and restrictions and may look to such factors as movements in the securities markets, including particular securities in which a Fund's assets are invested, sector exposure and asset allocation in connection with any such review. The Funds' performance is regularly reviewed by CMC or FCI on behalf of CMC.

A Fund itself, rather than CMC, will provide regular reports to Fund shareholders on their accounts.

#### **Private Limited Partnerships**

CMC performs various periodic reviews of security holdings of the Partnerships. Reviews consist of a general review of individual positions, adherence to the Partnerships' investment objectives, portfolio risks and liquidity. CMC is responsible for reviewing accounts to ensure adherence to investment guidelines. In its role as general partner, CMC will provide each limited partner with a report on the status and performance of its investment.

CMC, in its role as manager to the Third-Party Fund, is not responsible for providing reports to the limited partners. Reports are provided to the Third-Party Fund's limited partners directly by the Unaffiliated Adviser.

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

CMC does not compensate any person for client referrals and CMC does not receive commissions or any other economic benefit from a non-client in connection with providing advice to clients.

### **Item 15 - Custody**

In its role as general partner of the Partnerships, CMC acts in a capacity that provides it legal access to the securities and funds of the Partnerships in a manner that may result in CMC having "custody" of the Partnerships' assets, as that term is defined in Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended. The Partnerships' financial statements are audited by a PCAOB-registered accounting firm and distributed to investors in the Partnerships, in accordance with SEC requirements.

## **Item 16 - Investment Discretion**

Pursuant to its advisory agreements with the Trust, CMC has authority to determine which securities are bought or sold, the total amount of securities to be bought or sold, the broker or dealer through which the securities are to be bought or sold, and the commission rates at which transactions are effected. This authority is generally delegated to sub-advisers through sub-advisory agreements. In making the decision as to which securities are to be bought or sold and the amounts thereof, a Fund's sub-adviser is guided by the investment objective and investment policies and restrictions of the Fund. These general parameters cover such things as the relative proportion of debt securities and equity securities, the degree of risk, and the types and amounts of securities to constitute a Fund's portfolio. A Fund's sub-adviser then endeavors to manage the Fund's portfolio in accordance with these guidelines. As general partner to the Partnerships, CMC exercises investment discretion in selecting the Partnerships' investments.

Please see Item 4 for additional information regarding CMC's discretionary authority with respect to the Funds.

## **Item 17 - Voting Client Securities**

As a general matter, CMC does not exercise voting authority with respect to securities held by the Funds. Voting authority with respect to securities held by the Funds is delegated to each Fund's sub-adviser pursuant to the sub-advisory agreement and the Trust's proxy voting procedures. The Trust's proxy voting record on Form N-PX is available as the SEC's website at [www.sec.gov](http://www.sec.gov). In the event an investment held by a Partnership requires a proxy vote, the voting authority would be delegated to CMC as general partner and CMC would vote in accordance with the best interest of the Partnership.

## **Item 18 - Financial Information**

CMC does not have any financial condition that would impair its ability to meet contractual commitments to clients.

## **Item 19 - Additional Information**

### **Advances to Partnerships**

CMC has entered into revolving credit agreements with the Partnerships. Each credit agreement provides for up to \$600,000 in advances, as needed to fund investments and operations. The advances are subject to an interest rate equal to the one-month LIBOR rate plus 1%. At December 31, 2011, CMC had made total advances of approximately \$6,000 to the Partnerships under the credit agreements.

## **Privacy Notice**

Clearwater Management Company and Clearwater Investment Trust (collectively referred to as “Clearwater”) are committed to protecting the privacy and security of the nonpublic personal information that you provide to us. Clearwater has adopted policies and procedures we believe are reasonably designed to protect the nonpublic personal information of our fund shareholders. You trust us with your personal and financial information and we will honor that trust by handling your information carefully and using it only in your best interests. Because your personal and financial data is your private information, we hold ourselves to the highest standards in its safekeeping and use.

This notice will help you understand the types of information we collect and maintain, how that information is used and the safeguards in place to protect it.

### **Information We Collect and Maintain**

We collect personally identifiable financial information from you when you open an account or conduct transactions in a Clearwater account. We collect this information from your account application, your transaction forms and information about your transactions which we obtain while servicing your account. Examples of personally identifiable information that we may collect include:

- Name and address
- Social Security or taxpayer identification number
- Account balance
- Investment activity and history

### **What We Do With Your Personal Information**

We do not disclose any nonpublic personal information about current or former fund shareholders or their accounts to third parties except when needed to complete your transactions, as permitted by law or as directed by you.

For example:

- In order to open an account or execute transactions or account changes that you direct, it may be necessary to provide identifying information to companies, individuals or groups that are not affiliated with Clearwater, such as another financial institution if you were to transfer assets between Clearwater and that institution.
- Where permitted by law, we may disclose your nonpublic personal information to service providers such as nonaffiliated companies to perform services on behalf of Clearwater (for example, such a service provider would include Fiduciary Counselling Inc.).

In all such cases, we provide the third party with only the information necessary to carry out its assigned responsibilities and only for that purpose. We also require these third parties to treat your private information with the same high degree of confidentiality that we do.

We will release information about you only if you direct us to do so, if we are compelled by law to do so, or in other legally limited circumstances (for example, to prevent fraud or to comply with the anti-money laundering provisions of the USA PATRIOT Act).

### **How We Safeguard Your Personal Information**

Clearwater maintains strict physical, electronic and procedural safeguards to protect your personal information. This includes procedures regarding physical security and records retention, as well as information that may be maintained in technology applications used within the company.

We restrict access to information about you to those Clearwater employees who need to know the information in order to provide services to you. We have also implemented measures to protect your information from unauthorized access to or use of the information in connection with its disposal.

When information is required or directed to be shared with nonaffiliated third parties as necessary to conduct authorized activities on your behalf, Clearwater requires such third parties to adhere to strict privacy standards.

### **We Will Keep You Informed**

As required by federal law, we will notify you of our privacy policy annually. We reserve the right to modify this policy at any time, but be assured that if we do change our policy, we will tell you promptly.

If you have any questions or concerns regarding this policy, please contact us.