

R. M. DAVIS, INC.

REGISTERED INVESTMENT ADVISOR

A WEALTH MANAGEMENT COMPANY

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This brochure provides information about the qualifications and business practices of R. M. Davis, Inc. If you have any questions about the contents of this brochure, please contact us at 207-774-0022 and/or laidlaw@rmdavis.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about R. M. Davis, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

R. M. Davis, Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Brochure
SEC Rule 204-3

March 15, 2012

Material Changes

The material changes that have been made to this brochure since the date of the last annual update (March 18, 2011) are as follows:

- 1) As of December 31, 2011, the Company managed \$2,137,481,542 of client assets, (\$2,126,833,485 on a discretionary basis and \$10,648,057 on a non-discretionary basis) (see below, “Advisory Business”).
- 2) As of October 27, 2011, the Company terminated its participation in the Fidelity Wealth Advisor Solutions Service (see below, “Brokerage Practices”).

Currently, our brochure may be requested by contacting Wendy Laidlaw, Chief Compliance Officer, at 207-774-0022 or laidlaw@rmdavis.com.

Additional information about R. M. Davis, Inc. is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with R. M. Davis, Inc. who are registered, or are required to be registered, as investment adviser representatives of R. M. Davis, Inc.

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Advisory Business

R. M. Davis, Inc. (the “Company”) provides investment management and other wealth management services to its clients. The Company has been in business since 1978. Currently, eight of its officer/employees are its owners; Robert M. Davis is the principal owner. As of December 31, 2011, the Company managed \$2,137,481,542 of client assets (\$2,126,833,485 on a discretionary basis and \$10,648,057 on a non-discretionary basis). It engages in no business or profession other than investment and wealth management.

The Company offers the following services to its clients:

- investment management services
- portfolio consulting services
- financial planning and advice services
- trustee services
- personal affairs management services

The last three of these services are only available to investment management clients of the Company.

The Company’s investment management services are either “Full Service” or “Limited Service”. “Full Service” accounts are either “Standard Management Service” or “Fixed Income Service” accounts.

The Company’s “Standard Management Service” diversifies assets in a client’s account among individual common stocks and bonds, mutual and exchange traded funds, and cash; the “Fixed Income Service” invests a client’s account assets in individual bonds and cash.

“Limited Service” management services are for: (1) accounts related to a client’s “Full Service” account that are less than the Company’s minimum account size (see below, “Types of Clients”), and (2) other special circumstances (such as a “Full Service” account declining in value below such minimum account size). “Limited Service” accounts may be invested in diversified mutual or exchange traded funds and cash, selected by the Company and/or the client, but also equities (low cost basis or otherwise), bonds and other assets.

The Company also occasionally provides portfolio services to clients on a “one time” or “consulting” basis. The Company and the client agree on the details of the engagement orally or in a brief letter of understanding.

The Company directs its investment management services to the individual needs and objectives of each of its clients, after consultation with the client regarding that client’s goals and

objectives, time horizon and risk tolerance. Clients may impose restrictions on investing in certain securities or types of securities (see below, "Investment Discretion").

The Company offers clients financial planning services and advice over a wide variety of subjects, including estate and gift planning, education funding, financial forecasting, insurance issues, retirement and Medicare related planning, and tax matters. The Company's personal affairs management service assists clients in organizing and dealing with their personal household financial affairs, such as balancing checkbooks, reconciling bank statements, preparing checks to pay bills, organizing tax return materials and resolving issues with governmental and corporate entities.

Company officers also serve, in appropriate circumstances, as trustee (or co-trustee) of a client's trusts, including revocable living trusts, testamentary trusts, charitable remainder trusts and irrevocable life insurance trusts.

In a few situations, normally client-requested, the Company provides portfolio management services under so-called "wrap-fee" arrangements, in which a brokerage firm acts as custodian of client assets, executes the client's portfolio transactions without a separate commission charge, monitors the Company's performance, or provides some combination of these and other services, all for a single fee. The Company contracts separately with each such client for its investment management services, and bills its normal fee to the client outside the wrap-fee envelope. There is no difference in portfolio management between these wrap fee accounts and other client accounts.

Fees and Compensation

A. Investment Management Services.

For virtually all investment management services (see above, "Advisory Business"), the Company's fees are based on a percentage of a client's assets under management (including funds in money market securities), at annual rates as follows:

1. "Full Service" accounts:

a. "Standard Management Service":

- 1.7% of the first \$200,000 of assets under management;
- 0.7% of the next \$800,000 of assets under management;
- 0.45% of the next \$4 million of assets under management; and
- 0.2% of assets under management in excess of \$5 million.

b. “Fixed Income Service”:

- 0.6% of the first \$100,000 of assets under management;
- 0.4% of the next \$900,000 of assets under management; and
- 0.2% of assets under management in excess of \$1 million.

c. If the Company manages two or more “Standard Management Service” accounts for members of the same family or organization as a single composited account, it treats those accounts as one account for fee billing purposes. If the Company cannot manage all such related accounts as a single composited account, each such related account (or subgroup of composited accounts) will be charged a first tier fee (above) of 1.4% (rather than 1.7%).

2. “Limited Service” accounts:

- a. The fee is at an annual rate of 0.2% of assets under management, when such account is independent or related to a “Full Service” account relationship of \$5 million or more.
- b. The fee is at an annual rate of 0.45% of assets under management, when such account is independent or related to a “Full Service” account relationship of less than \$5 million.
- c. The annual fee is \$100 for certain special situation accounts.

Charitable and eleemosynary organizations may qualify for a 20% discount of the Standard Management and Fixed Income Service fees. No fee is charged to qualifying limited service charitable and eleemosynary organization clients.

Unless the Company and the client agree otherwise to reflect special billing situations, the Company calculates and bills its investment management fees for “Full Service” accounts semi-annually, in advance (for a six month period), based on March 31 and September 30 account values, at one-half the annual rate; invoices are issued early in April and October, respectively. The Company will direct the invoice to the custodian of the client’s account, to be paid from the account, unless the client has elected to be billed directly, for payment outside the account. All fees are due within 15 days from the date of the invoice.

In the initial billing period after commencement of investment management services, the Company pro-rates the fee, from the beginning of the calendar month closest to the service commencement date through the end of such semi-annual billing period. Asset additions or withdrawals in excess of \$50,000 made during a semi-annual billing period will incur a fee or a rebate consistent with the above formulas, which will be charged or credited at the next semi-annual billing occasion.

If either the Company or the client terminates a “Full Service” account during the initial billing period, the fee paid is non-refundable. Thereafter, upon account termination, any management fee collected for a billing period is pro-rated from the beginning of the calendar month closest to the date of termination to the end of such billing period, and rebated to the client.

Unless the Company and the client agree otherwise to reflect special billing situations, the Company calculates and bills its investment management fees for “Limited Service” accounts annually in July, for the full calendar year, based on June 30 account values. The Company will direct the invoice to the custodian of the client’s account, to be paid from the account, unless the client has elected to be billed directly, for payment outside the account. All fees are due within 15 days from the date of the invoice.

If a “Limited Service” account is opened on July 1 or earlier in the year, the Company pro-rates the fee for that calendar year, from the beginning of the calendar month closest to the service commencement date through the end of such calendar year; if the account is opened after July 1, no fee is charged for that initial calendar year.

If either the Company or a client terminates a “Limited Service” account any management fee collected for the calendar year is pro-rated from the beginning of the calendar month closest to the date of termination to the end of the calendar year, and rebated to the client.

The Company may negotiate deviations from its regular investment management fee schedules (above), to reflect unusual portfolio conditions or client circumstances. One example of a special fee arrangement is as follows: until December 31, 2005, the Company had provided investment consulting services to another investment advisor for certain client accounts managed by that advisor. As of January 1, 2006, that other investment advisor ceased providing investment management services to its client accounts, and the Company began providing investment management services to such accounts, in accordance with a written investment advisory agreement with each such client. The Company receives, as its investment advisory fee, 56% of the total fiduciary and service fees payable by each such account, with the remainder paid to other fiduciaries of, and service providers to, such account. However, the aggregate investment management, fiduciary and service fees charged to each such account are based on the customary Company investment management fee schedule (see above) in effect for that type of account at the time of billing. With regard to some such accounts, the Company bills and retains 100% of the total scheduled fees for such accounts, and the aggregate amount paid to the Company from the other accounts is correspondingly reduced, so that the Company receives about 56% of the total scheduled fees from all such accounts. This special fee arrangement is expected to last at least through December 31, 2012.

In investment management accounts, clients will pay fees and expenses to other service providers, such as custodians, and commissions and other transaction costs to broker-dealers for

executing trades in client accounts (see below, “Brokerage Practices”). For clients’ investments in money market funds, other mutual funds, or exchange traded funds (ETFs), such funds charge their own costs and expenses (including separate investment management fees), in addition to the investment management fees charged by the Company.

Neither the Company nor any of its employees accept compensation for the sale of securities or other investment products, including asset based sales charges or service fees from the sale of mutual funds.

B. Portfolio Consulting Services.

The Company’s fees for portfolio consulting services are negotiated and are dependent on the nature and magnitude of the consultations, but are not normally less than \$150.00 per hour.

C. Trustee Services.

If a Company officer serves as a trustee of a client's irrevocable trust, the Company charges a trustee's fee, in addition to the investment management fee. The annual fee is either: (1) at the rate of 0.2% of the value of the managed trust assets (in the case of a "Full Service" or a "Limited Service" trust) or (2) a flat \$250 (in the case of an irrevocable life insurance trust or similar trust). Calculation, billing and rebates of "Full Service" amount and "Limited Service" amount trust fees are similar to those for “Full Service” accounts (above); calculation, billing and rebates of the \$250 flat fee are similar to those for “Limited Service” accounts (above). Trustees’ fees are generally non-negotiable. The Company does not charge a trustee’s fee for revocable trusts.

D. Personal Affairs Management Services.

For its personal affairs management service (see above, “Advisory Business”) to clients residing within 90 miles of the Company’s Portland, Maine office, the Company charges an annual fee of \$5,000. For clients residing more than 90 miles from the Company’s office, or for other non-standard circumstances relating to the client or the services provided to the client, the annual fee is subject to negotiation. All fees are billed semi-annually, at one half the annual rate, at the same time as the investment management fee for the client’s “Full Service” account. If the service is terminated by the Company or the client, and semi-annual fee collected is pro-rated from the beginning of the calendar month closest to the date of termination to the end of the billing period, and rebated to the client.

E. Financial Planning and Advice Services.

The Company does not charge clients a separate fee for any financial planning or financial advice services, except as follows: for its comprehensive personal financial planning service, the Company charges a one-time, non-negotiable flat fee of \$3,000, one-third of which is

invoiced at the outset of the planning process, and the remainder upon completion of the planning process.

Performance-Based Fees and Side-By-Side Management

Neither the Company nor any of its employees accepts performance-based fees (that is, fees based on a share of capital gains on or capital appreciation of the assets of a client's account).

Types of Clients

The Company generally provides investment advice to the following types of clients:

- individuals
- pension and profit sharing plans
- trusts, estates and charitable organizations
- corporations and other business entities
- municipalities and other governmental entities

The Company's minimum account size for a "Full Service" account is \$300,000; however, the Company will waive this requirement, where appropriate, such as situations where the account is likely to reach \$300,000 or more within a reasonable period of time due to anticipated account additions.

Methods of Analysis, Investment Strategies and Risk of Loss

For "Full Service" accounts, the Company primarily invests in individual equities (including American Depositary Receipts for non-United States companies), individual fixed income securities (bonds and certificates of deposit) and international equity mutual and exchange traded funds, primarily traded on United States stock exchanges.

At the outset of a client relationship, the Company discusses and establishes an asset allocation objective with the client. The Company then manages the client's account to that objective and any other specific investment objectives established by the client. Periodically, all such objectives are discussed with the client and adjusted, as needed.

For individual equities in a "Full Service" account, the Company uses a "blended style" approach, investing in companies of various market capitalizations, but with an emphasis on large capitalization companies. The Company employs a proprietary screening process that

helps it identify companies possessing superior long term growth characteristics and strong financial ratios. Equity holdings are diversified across several broad sectors of the economy with no single company position having a disproportionate percentage of the total. The Company's equity analysis and decision-making process uses computerized databases and institutional research subscription services, U.S. Government and Federal Reserve studies, and company financial reports. The process incorporates traditional fundamental analysis and qualitative judgments regarding business strategy, competitive position, regulation and management capability. Once identified, each company is subjected to a system of valuation and technical analyses that are used to define buying or selling opportunities.

For individual fixed income securities in a "Full Service" account, the Company uses a "laddered" maturity structure, generally up to 15 years, using U.S. Treasury, Federal agency, and corporate and municipal instruments, along with short-term certificates of deposit, which are rated as "investment grade" at time of purchase by leading bond rating agencies. The maturity structure for a fixed income portfolio can vary in length, depending on market conditions, available supply, and client directives. The Company expects to hold individual fixed income securities in a client's account to maturity date (or earlier call), unless client needs or Company concerns about a fixed income issuer cause the Company to sell a holding.

In "Limited Service" accounts, the Company primarily invests in a diversified portfolio of domestic and international mutual and exchange traded funds.

The Company's officer/portfolio managers are specifically responsible for implementing the Company's investment process in the management of client portfolios.

Investing in securities (such as the securities referred to above) involves risk of loss that clients should be prepared to bear, such as:

- Investment Risk: the risk that any individual security may decline in value because of events relating to the issuer of that security;
- Liquidity Risk: the risk that any individual security may not be marketable at a favorable price at a particular point in time;
- Market Risk: the risk that any individual security may decline in value because of factors relating to the entire market or economic sector and not just relating to that particular issuer;
- Default Risk: the risk that a fixed income instrument issuer may not make required interest or principal payments, or the risk that an equity security issuer may become insolvent;
- Interest Rate Risk: the risk that increases in overall market interest rates may decrease the value of a fixed income instrument; and

- **Currency Risk:** the risk that securities of an issuer with international operations may decline in value because of changes in prices of one currency against another.

Disciplinary Information

The Company is required to disclose all material facts regarding any legal or disciplinary events that are material to a client's evaluation of the Company's advisory business or the integrity of its management. The Company has no such legal or disciplinary events to disclose.

Other Financial Industry Activities and Affiliations

Neither the Company nor any of its management personnel:

- are registered, or have an application pending to register, as a broker dealer or a registered representative of a broker-dealer;
- are registered, or have an application pending to register, as a futures commissions merchant, commodity pool operator, commodity trading advisor, or an associated person of any such entity; or
- have any relationship or arrangement material to the Company's business or its clients with any of the following:
 - broker-dealer, municipal securities dealer, or governmental securities dealer or broker;
 - investment company or other pooled investment vehicle;
 - other investment advisor or financial planner;
 - futures commissions merchant, commodity pool operator, or commodity trading advisor;
 - banking or thrift institution;
 - accountant or accounting firm;
 - lawyer or law firm;
 - insurance company or agency;
 - pension consultant;
 - real estate broker or dealer; or

- sponsor or syndicator of limited partnerships.

The Company does not receive any compensation, direct or indirect, from, or have a business relationship with, any other investment advisor the Company may recommend or select for clients.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

The Company has adopted a Code of Ethics (the “Code”) that governs all its employees. It includes requirements that all employees:

- Comply with all laws, regulations and fiduciary responsibilities to clients;
- Provide written reports to the Company's Chief Compliance Officer, as to:
 - (1) annually, their personal securities accounts and holdings (and those of their immediate families);
 - (2) quarterly, their transactions in securities (and those of their immediate families) and all gifts (over \$500 for officers and \$100 for staff employees) to or from clients, prospective clients and/or others doing (or seeking to do) business with the Company;
- Receive pre-approval from the Company's Executive Committee for:
 - (1) any investment in an initial public offering or limited offering by any securities issuer;
 - (2) service as a director or officer of any public company or mutual fund;
- Refrain from engaging in "insider trading" (that is, trading based on material non-public information) for themselves or others, or receiving preferential brokerage commission rates, or engaging in direct securities transactions with clients;
- Report any violations of the Code to senior Company management.

Violations of the Code will result in appropriate disciplinary action, up to and including termination of employment.

The Company will provide a complete copy of the Code to any client or prospective client upon request.

Neither the Company nor any employee recommends to clients, or buys or sells for client accounts, securities in which the Company or any employee has a material financial interest.

The Company (through its profit-sharing plan) and its employees are permitted to buy and sell the same securities (and at or about the same time) that the Company and its employees recommend to clients, or buy and sell for client accounts. This practice could present a potential conflict of interest with client interests. However, the Code prohibits any employee securities transaction that would be inconsistent with the Company's obligation to its clients under the Code and under applicable federal securities laws and regulations. The Company's Chief Compliance Officer reviews quarterly reports of Company and employee securities transactions to determine that no violations of law, fiduciary duties to clients or the Code have occurred.

Brokerage Practices

The Company will recommend or select a custodian for a client's account, unless the client directs, in the investment management agreement with the Company, that a specific custodian be used. Likewise, the Company will use its discretion in placing client account securities transactions with brokers, unless the client specifies otherwise in the investment management agreement.

Customarily, the Company will select a brokerage firm as custodian, unless specific needs (such as trust principal and income accounting) favor using a bank custodian. The Company maintains a list of "preferred" custodians (bank and brokerage) for such purposes, based upon performance standards (reviewed by the Company regularly) which include reliability, superior client servicing, accurate reporting, financial strength, competitive commission rates and high quality transaction execution capabilities.

If a brokerage firm is the custodian, the Company customarily places client account transactions through that firm, because it is normally most efficient and cost effective to do so, based on the Company's trading practices for client accounts. If a bank is the custodian, the Company normally places client account transactions with a select number of brokerage firms who can provide high quality trade executions.

The Company uses its standardized commission rate schedule for client account transactions at brokerage firms selected by the Company; such brokerage firms have agreed to such commission rates. The Company's standardized commission rate schedule provides for lower commission rates than many brokerage firms' full retail rates, but may not be as low as brokerage firms make available to certain or all of their clients, or to clients of other investment advisory firms. Because the Company does not customarily combine one client's trades with those of other clients, its ability to negotiate lower commission rates (on the basis of a larger average transaction size) with brokerage firms is lessened.

Certain "preferred" custodial brokerage firms (such as Charles Schwab & Co., Inc. ("Schwab") and Fidelity Brokerage Services LLC ("Fidelity")) provide to the Company third party research services and products, for the benefit of the Company (such as economic data,

credit ratings and information, stock valuation, equity and credit research, mutual fund information, and corporate governance information) from such service providers as Analytic Systems Corporation, Standard & Poors, Applied Finance Group, Morningstar, Inc. Research, Gimme Credit Research, William Blair & Company, LLC, Yardeni Research, Inc., Value Line Publishing, and Northern Trust Company.

Where banks (and certain brokerage firms) are custodians for clients' accounts, the brokerage firms selected by the Company for placing client account transactions may provide to the Company proprietary research products and services (such as economic data, equity and credit research and mutual fund information) from such brokerage firms as Bank of America, Barclays, Morgan Stanley Smith Barney, J.P. Morgan, Macquarie Securities and Stifel Nicolaus.

In all these situations, the Company receives a benefit because it does not have to produce or pay for such research products and services, although Company clients receive a benefit from them. Thus, the Company has an incentive to select such brokerage firms based on its interest in receiving such research products and services, rather than in its clients' interest in receiving most favorable execution for client account transactions. The commission rates negotiated by the Company with such brokerage firms may be higher than those charged by other brokerage firms for similar transactions.

The Company uses such research products and services for the general benefit of all client accounts; the Company does not use such research products and services only for the specific benefit of those client accounts that generated the commissions to the brokerage firms that provided or paid for such research products and services. The Company does not seek to allocate such research products and services to client accounts proportionately to the credits such account commissions generate.

In the case of brokerage firms providing proprietary research products and services, the Company has no specific agreement or understanding as to the amount of commissions which must be paid to such firms in return for such products and services. Each such brokerage firm provides to the Company the level of research products and services it deems appropriate, based on the amount of commissions generated by the Company. The Company regularly monitors the level of commissions paid to each such brokerage firm to influence continued receipt of the desired research products and services from such firm.

In the case of brokerage firms providing for third party research products and services, the Company and such firms negotiate annually for the dollar amount (or formula) that each such firm will use to pay for such research products and services, which takes into account the level of commissions paid (and anticipated to be paid) to such firm.

The Company realizes that lower commission costs may be available from other brokerage firms or trading venues (such as ECN's) which specialize in execution services, but

believes the total services received from the brokerage firms the Company uses for the benefit of its clients justify the commissions which are paid.

Certain custodians, such as Schwab and Fidelity, may make available to the Company (and the Company often uses) other products and services that benefit the Company and may indirectly benefit 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 pricing information and other market data, facilitate payment of the Company's fees from its clients' accounts, and assist with "back-office" functions, recordkeeping and client reporting. The Company may use many of these services for the benefit of all or a substantial number of clients' accounts, including accounts not maintained at such custodians. Such custodians also make available to the Company (either directly or through independent third parties) other services intended to help the Company manage and further develop its business enterprise, such as consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. Such custodians can discount or waive fees they would otherwise charge for some of these services or reimburse the Company for certain Company expenses relating to such services (such as travel expenses to or conference fees for custodian-sponsored conferences and custodian office visits). Thus, the Company has an incentive to recommend that clients maintain their account assets at such custodians, based in part on the benefit to the Company and not solely on the nature, cost or quality of custody and brokerage services by such custodians.

Until October 27, 2011, the Company participated, at no charge to the Company, in the Fidelity Wealth Advisor Solutions Service. Under this program, the Company received referrals from Fidelity personnel of current and potential Fidelity customers who wished to explore the hiring of a registered investment advisor. Fidelity indicated that the Company's ongoing participation in this program was dependent on the level of overall Company client assets custodied at Fidelity. Thus, the Company had a financial incentive to place custody of client assets at Fidelity and to use Fidelity as the broker for transactions in client accounts custodied at Fidelity. However, the Company believed that Fidelity's services were in the best interests of those referral clients for whom it (or they) selected Fidelity as the custodian/broker.

Wendy A. Laidlaw, Vice President and Chief Operating Officer (and Chief Compliance Officer) of the Company, currently serves on the Schwab Institutional Technology and Operations Advisory Board (the "Board"). The Board consists of approximately 10-14 representatives of independent investment advisory firms who have been invited by Schwab Institutional management to participate in meetings and discussions of Schwab Institutional's services for independent investment advisors and their clients. Ms. Laidlaw's term is expected to end in 2012. Board members enter nondisclosure agreements with Schwab under which they agree not to disclose material non-public information about Charles Schwab & Company, Inc., whose common stock is listed on the New York Stock Exchange and the Nasdaq Stock Market

(symbol SCHW). The Board may meet in person once per year and has quarterly conference call meetings. Board members are not compensated by Schwab Institutional for their service, but Schwab Institutional does pay for or reimburse Board members' travel, lodging, meals and other incidental expenses incurred in attending in-person Board meetings.

A client may direct (with the Company's consent) in the investment management agreement that the client's account be custodied at, and/or all account transactions be placed with, a specific brokerage firm (including a brokerage firm that has referred the client to the Company). In such cases, a client should be aware that:

- the Company will have no duty to negotiate custody and/or brokerage commission rates on the client's behalf with the designated brokerage firm; the client is solely responsible for negotiating such rates;
- lower brokerage commission rates may be available to the client, either through the Company's then current standardized commission rate schedule, or through alternative commission rates at the client's designated brokerage firm or elsewhere;
- the Company may be unable to achieve most favorable execution quality for client account transactions (so-called "best execution") through use of such designated brokerage firm;
- the client can at any time choose a different brokerage firm, including those "preferred" by the Company;
- if the designated brokerage firm has referred the client to the Company, a conflict of interest may exist for the Company in achieving best execution for the client's account trades and its interest in receiving future client referrals from that brokerage firm.

The Company periodically and regularly monitors the trading activity in random samples of such accounts for execution quality, and may report any issues of concern to such clients.

The Company does not regularly aggregate the purchase or sale of equity securities for client accounts; customarily, all equity trades are executed on an individual client/individual security basis. However, when one or more portfolio managers buys or sells an entire position in an equity security for a group of clients, the trades may be aggregated through each custodian. The Company does aggregate pending client trades, through each custodian, for fixed income instruments having similar characteristics, except where the executing broker must enter each client trade individually. Generally when trades are aggregated, all clients at the same custodian participating in the aggregated order will receive an average share or bond price with all other transaction costs (other than prime broker fees for certain bond trades) shared on a pro-rata basis. When trades are aggregated, all clients participating in the aggregated order with the custodian

shall receive an average share or bond price with all other transaction costs (other than prime brokerage fees) shared on a pro-rata basis. The Company's prevailing practice of not aggregating clients' trades may result in higher overall trading costs to clients than if the Company's prevailing practice were to aggregate such trades.

Review of Accounts

The Company's officer/portfolio managers conduct client account reviews in light of the client's stated objectives and the Company's overall investment outlook and strategy. Management of the client investment portfolios is on an ongoing process. While there are no specific requirements for frequency of client account reviews, customarily "Full Service" and "Limited Service" accounts are reviewed at least annually. Account reviews are also occasioned by a variety of circumstances, such as follow-up to a client meeting, changes in client needs, revisions to the Company's investment strategy or its assessment of particular securities, market trends and changes in the Company's economic outlook.

If the Company has prepared a comprehensive personal financial plan (see above, "Fees and Compensation") for a client, the Company offers to review the plan annually with the client.

The Company provides clients with "Full Service" accounts a written quarterly account statement, which presents details of their investment portfolios, including a listing of all securities and cash balances, market values, tax costs and estimated income return. In addition, the Company provides such clients with a written quarterly outlook and strategy report and periodic letters explaining transactions in the clients' accounts.

The Company provides clients with "Limited Service" accounts a written quarterly statement of their accounts (unless clients elect not to receive them, or to receive only certain of them).

Client Referrals and Other Compensation

See "Brokerage Practices" (above) for a discussion of this item (as it relates to the Fidelity Wealth Advisor Solutions Service). Otherwise: (a) no non-client provides any economic benefit to the Company for providing investment advice or other advisory services to the Company's clients, and (b) neither the Company (nor any affiliate) directly or indirectly compensates non-employees of the Company for client referrals.

Custody

All clients receive quarterly, or more frequent, statements from the broker-dealer, bank or other qualified custodian that holds and maintains clients' investment assets. The Company

urges all its clients to review carefully such custodian statements and compare them with the account statements that the Company provides to its clients. The Company's statements may vary from the custodian's statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Investment Discretion

The Company manages most of its clients' portfolios on a fully discretionary basis, with full authority to determine and direct execution of client account transactions within the client's specified investment objectives and plan without consultation with the client on specific transactions. Clients grant this authority to the Company in the investment management agreement between the client and the Company and in the documents entered into by the client and the custodian of the client's accounts. However, some clients do place limits on this discretionary authority (with respect to investing in certain securities or types of securities), on a case-by-case basis, by written instructions to the Company. Some clients retain the Company on a non-discretionary basis, requiring that client account transactions be discussed with, and approved by, the client in advance.

Voting Client Securities

If agreed to by the Company and the client in the investment management agreement, the Company will assume responsibility for proxy voting of securities in the client's custodial account (including securities not managed by the Company). In all cases where the Company votes proxies for clients, including situations where the Company has an actual and material conflict of interest, the Company will vote in accordance with the recommendations of Glass, Lewis & Co., LLC, an independent investment research company ("Glass Lewis"). For situations where Glass Lewis does not make a recommendation, the Company will vote in accordance with Glass Lewis's published guidelines for voting. A client may instruct the Company as to how to vote a proxy (or class of proxy votes); if so, the Company will vote in accordance with the client's instructions. Clients may obtain a copy of the Company's proxy voting policies and procedures, or information as to how the Company voted the client's proxies, upon written request to the Company.

If the client has not granted the Company the authority to vote proxies, the client will receive proxies or other solicitations directly from the client's account custodian; in such event, the client is totally responsible for voting the proxies.

Financial Information

The Company has no financial condition that is reasonably likely to impair the Company's ability to meet its contractual commitment to clients. The Company has never been the subject of a bankruptcy proceeding at any time.