



# ZPR Investment Management Inc.

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March 14, 2012

This brochure provides information about the qualifications and business practices of ZPR Investment Management Inc. If you have any questions about the contents of this brochure, please contact us at (386) 775-1177. 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 ZPR Investment Management Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

ZPR Investment Management Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Material Changes Since the Brochure dated March 31, 2011

Relating to Part 1, Item 1 J, Chief Compliance Officer  
and Part 10, Control Persons:

Mr. Max Zavanelli gifted 25% of the corporation shares to his son, Mark David Zavanelli on September 30, 2011. The Board of Directors elected Mark David Zavanelli to the positions of President and Chief Compliance Officer effective October 1, 2011.

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# Advisory Business

## Item 4

ZPR Investment Management Inc. (ZPR) is a registered investment adviser based in Orange City, Florida. We have been providing investment advisory services since incorporation in 1994. Max Zavanelli owns 75% of the shares. Mark David Zavanelli owns 25% of the shares.

ZPR provides discretionary portfolio management services for separate individual and institutional accounts. It is not a family of mutual funds or a personal money manager or a financial planner. Prior to opening an account with ZPR, you will decide which one or more of the firm's strategies discussed in Item 8 below meets your investment objectives. If you retain our firm for portfolio management services, we help you open a standard brokerage account in your name. Once we invest your assets in one or more of the firm's strategies, we will monitor the portfolio(s) on an ongoing basis and will rebalance the portfolio(s) as required by changes in market conditions and the particular strategy.

We require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm or trading authorization forms. In providing discretionary management services, we generally do not accept client restrictions on the specific securities or the types of securities that may be held in their account, however exceptions may be made on a case by case basis.

You may terminate the investment advisory agreement upon written notice to our firm and mutual release. You will incur a pro rata charge for services rendered prior to the termination of the agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees according to the fee schedule stated below under the Fees and Compensation Section.

**Types of Investments**

ZPR invests in domestic and foreign equity securities, and warrants and rights when they are distributed by the equity securities that are exchange-listed or traded over-the-counter. On occasion some of client assets may be invested in foreign currencies.

As of December 31, 2011, ZPR managed discretionary accounts with a total value of \$124,559,820.

# Fees and Compensation

## Item 5

The annual fee for portfolio management services is billed quarterly in advance based on the market value of the assets under management on the last day of the preceding calendar quarter.

Fees will be assessed pro rata in the event the investment advisory agreement is executed at any time other than the first day of a calendar quarter. Our fee is non-negotiable and based on a percentage of assets under management based on the following fee structure:

### ASSET BASED FEE STRUCTURE \*\*

#### Quarterly Payments:

- 1/2 of 1% (or 50 basis points) per quarter when net assets are below \$1,000,000 billed at the beginning of each quarter. New accounts will be calculated on a pro-rated basis for the first quarter.
- 2/5 of 1% (or 40 basis points) per quarter when net assets exceed \$1,000,000 billed at the beginning of each quarter.
- 1/4 of 1% (or 25 basis points) per quarter when net assets exceed \$5,000,000 billed at the beginning of each quarter.

\*\* Existing clients of the firm may operate under a lower fee structure.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in you paying a reduced advisory fee based on the available breakpoints in our fee schedule stated above.

### PERFORMANCE BASED FEE STRUCTURE:

Alternative fee for institutional client accounts with more than \$5 million under management immediately after entering into the advisory agreement.

0.60% of Assets + 20% of excess returns over agreed upon benchmark, or

0.50% of Assets + 12% of the return exceeding the agreed upon actuarial rate of the client's pension fund.

Performance is calculated annually for the performance portion of the fee beginning with the first full quarter of assets under management.

We will send you an invoice for the payment of our advisory fee; or if you provide a standing authorization in the management contract that allows ZPR to be paid directly from your qualified custodian account, we will send you a copy of the invoice and will deduct our fee directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

#### ADDITIONAL FEES AND EXPENSES

You may choose to enter a cash sweep arrangement with your custodian to buy and sell a money market mutual fund with any uninvested cash in your account. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses.

You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by broker-dealers, custodian or sponsors. To fully understand the total costs you will incur, you should review all the fees charged by mutual funds, our firm, and others. For information on our brokerage practices, please refer to the Brokerage Practices section of this Brochure.

# Performance-Based Fees and Side-By-Side Management

## Item 6

We charge performance based fees to institutional clients as described above in the Fees and Compensation section in this Brochure. Performance-based fees are fees based on a share of capital gains or capital appreciation of a client's account. We manage accounts that are charged performance-based fees while at the same time managing accounts (perhaps with similar objectives) that are not charged performance-based fees ("side-by-side management"). Performance-based fees and side-by-side management may create conflicts of interest.

ZPR does not believe that conflicts of interest are created because of its trading practices and strategy design. ZPR makes block trades which are allocated between client accounts in each strategy. Performance based fee accounts receive their share of the block trade per the trading policies. They do not receive any special treatment. Performance-based fees may create an incentive for firms to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In order to address this potential conflict of interest, our firm monitors model strategies to ensure holdings are suitable based on the strategy's investment objectives.

Performance based fees may also create an incentive for our firm to overvalue investments which lack a market quotation. In order to address such conflict, we have adopted policies and procedures that require our firm to "fairly value" any investments which do not have a readily ascertainable value.

Side-by-side management might provide an incentive for our firm to favor accounts for which we receive a performance-based fee. For example, we may have an incentive to allocate limited investment opportunities to clients who are charged performance-based fees over clients who are charged asset based fees only. To address this potential conflict of interest, we have instituted policies and procedures that require our firm to allocate investment opportunities (if they are appropriate for our strategies) in an effort to avoid favoritism among our clients, regardless of whether the client is charged performance fees.



# Types of Clients

## Item 7

We provide investment advice to individuals, pension and profit sharing plans, other pooled investment vehicles such as investment clubs and family limited partnerships, charities, corporations, and other business entities.

We have the following minimum account sizes for various strategies:

Fundamental Strategies:

Small Cap Value - \$200,000

Global Equity - \$350,000

All-Asian - \$200,000

Thai High Dividend - \$200,000

Quantitative Strategies:

S&P 500 EQTP (Earnings Quality and True Profitability) - \$250,000

Volume Winners - \$200,000

Volume Value - \$200,000

Volume Momentum - \$200,000

The minimum account sizes may be waived in our sole discretion. For example, we may waive the minimum if you appear to have significant potential for increasing your assets under our management.

# Methods of Analysis, Investment Strategies and Risk of Loss

## Item 8

ZPR manages accounts utilizing a variety of model strategies. We divide these into two primary groups: Fundamental Strategies and Quantitative Strategies.

Fundamental Strategies:

Small Cap Value

Global Equity

All-Asian Equity

Thai High Dividend

We believe that normal investor behavior, such as greed and fear caused by misinformation or lack of information, creates market inefficiencies where quality companies sometimes trade at unjustly low valuations. We view these situations as potential opportunities that can be exploited for profit, but only after careful, extensive analysis do we select stocks for inclusion in portfolios.

These strategies utilize our GRAPES (Growth Rate Arbitrage Price Equilibrium System) valuation model. This model identifies the efficient theoretical price of a stock and what value the company is worth as a private business.

Once we identify a group of stocks using GRAPES and further narrow the selection through fundamental analysis, we run a risk/reward model to measure each stock's potential loss against its estimated possible gain. In order to be included in the portfolio, our estimated gain needs to be at least three times greater than our estimated potential loss.

Investments are weighted in the portfolio according to their probability of success, their risk, and their potential return.

We exercise a stringent sell discipline based upon price appreciation because as a stock's price rises, the risk/reward ratio changes. The risk for more appreciation may now be greater. If so, we sell and reinvest in new opportunities. We also sell if the company's fundamentals have for some reason deteriorated.

## Small Cap Value

Our Small Cap Value Strategy is designed to find and invest in deep value companies with a market capitalization ranging from approximately \$50 million to \$2 billion. However, we have no minimum market cap rule for a stock.

The ZPR Small Cap Value Strategy typically invests in overlooked or out-of-favor companies with the following characteristics:

- a unique product niche
- substantial positive retained earnings
- little to no debt
- strong cash flow
- little to no analyst coverage
- trading at an inefficient price as determined by our GRAPES Model

A portfolio composed of small cap stocks is likely to have greater risk and volatility than that of a broad market index such as the S&P 500.

## Global Equity

The ZPR Global Equity Strategy consists of both U.S. and non-U.S. small cap value stocks. The strategy identifies undervalued companies in select foreign markets by applying the same methodology that we use in managing our Small Cap Value strategy.

Investing in foreign securities entails different and possibly greater risk than domestic equities. This includes but is not limited to foreign currency exchange risk, where the value of foreign holdings may decline in U.S. dollar terms due to currency fluctuations, and country-specific risk, where events

occurring in a particular country may have a negative effect on equity prices in that market.

### All-Asian Equity

The ZPR All Asian Strategy consists of Asian small cap value stocks. These stocks are generally the same stocks which form the non-U.S. portion of the Global Equity Strategy. The strategy identifies undervalued companies in select foreign markets by applying the same methodology that we use in managing our Small Cap Value strategy.

Investing in foreign securities entails different and possibly greater risk than domestic equities. This includes but is not limited to foreign currency exchange risk, where the value of foreign holdings may decline in U.S. dollar terms due to currency fluctuations, and country-specific risk, where events occurring in a particular country may have a negative effect on equity prices in that market.

### Thai High Dividend

The ZPR Thai High Dividend Strategy is a concentrated portfolio of Thai equities with what we believe to be unusually large dividend yields. The objective of the strategy is capital appreciation as well as income. The strategy is designed around 15 holdings with a minimum of an 8% portfolio yield. Holdings are also evaluated using our GRAPES model and fundamental analysis. The strategy will hold a portion of assets in cash if a sufficient number of acceptable high yielding stocks cannot be found.

This strategy has additional risks in addition to those found in investing in a diversified portfolio of foreign securities. The small number of stocks held may not provide adequate diversification to protect against declines in the value of a single security. Also, a portfolio solely consisting of Thai securities will be subject to events which impact the value of the Thai Baht or the Thai stock market.

### Quantitative Strategies

S&P 500 EQTP (Earnings Quality and True Profitability)

Volume Winners

## Volume Value

## Volume Momentum

ZPR and affiliated companies have performed many studies on stock market anomalies – conditions involving corporate practices or investor behavior where unusual returns can be documented with statistical significance.

The insight gained from this research has allowed us to create a set of quantitative investment strategies for our managed client accounts which we believe have superior risk and return attributes. These strategies are managed according to a set of data-driven selection criteria without the company-specific analysis which we perform for our fundamental strategies.

Due to the high turnover in all quantitative portfolios (up to 100% each quarter), these products are best suited for tax exempt or tax deferred accounts. Also, the high turnover will result in increased commissions and other trading costs which may cause these strategies to underperform their relevant benchmarks.

## S&P 500 EQTP (Earnings Quality and True Profitability)

The ZPR S&P 500 EQTP Strategy invests in S&P 500 stocks which have improving earnings quality according to our model. Each quarter ZPR rank orders all of the companies in the S&P 500 by quintile (1-5), with quintile 1 representing the best companies according to the model and quintile 5 representing the worst. The strategy holds only those companies which are new arrivals to quintile 1. Turnover is 100% per quarter according to this design.

## Volume Winners

The ZPR Volume Winners Strategy invests in microcap stocks which meet our multifactor volume winners selection criteria. This model is composed of three components: low volume, price to 52 week high (a price momentum measure), and a proprietary short interest ratio. The strategy has some turnover each quarter as lesser qualified stocks are replaced by newly qualified stocks.

## Volume Value

The Volume Value strategy invests in microcap stocks which meet our multifactor volume value selection criteria. This model is composed of two components: low volume and low (cheaper) valuation. The strategy has some turnover each quarter as lesser qualified stocks are replaced by newly qualified stocks.

## Volume Momentum

The Volume Momentum strategy invests in microcap stocks which meet our multifactor volume momentum selection criteria. This model combines our Volume Winners strategy with a momentum strategy called SuperMo. We believe that these strategies are a natural combination as they focus on stock selection methods that are relatively less correlated with each other. SuperMo has a relatively higher turnover rate, so significant (>50%) turnover can be expected each quarter.

Although our three volume based strategies are designed with an objective of reduced volatility, there are nonetheless specific risks which pertain to the strategies. First, the liquidity in the stocks which make up the strategy is inherently lower than that of other small cap stocks, so transactions costs are proportionally higher. Secondly, micro-cap companies are not as established as larger companies and may be more susceptible to economic disruptions.

## Other Risks and Considerations:

ZPR uses information from financial newspapers and magazines, corporate announcements of capital changes and other press releases, corporate rating services, timing services, annual reports, prospectuses, SEC filings, research prepared by others which would include institutional and academic databases, and proprietary databases. These proprietary databases and formulas, (“devices,”) used by ZPR have limitations and difficulties with respect to their use. The use of these devices does not change the possibility of loss inherent in all investment decisions.

Past performance does not guarantee future results; there is always a possibility of loss. Investing in stocks involves systematic risk with panics and economic cycles, dips, crashes, and unwelcome surprises, currency risks, geopolitical risks, correlations with acts of god and nature that apply to all investments and can result in the loss of all or part of your principal.

All strategies may result in long term and short term gains and losses. ZPR does not use “Trading” (securities sold within 30 days) as a strategy, but such sales may occur on bad news. Some account contracts may allow Short sales and Margin transactions that may be appropriate for certain ZPR strategies.

As is the case with any investment strategy, it is recommended that you be prepared to commit to your chosen ZPR strategy for the long term. ZPR will not approve a new managed account if it is known that an investor intends to leave after a short period of time or if we determine that an account with us is otherwise inappropriate.

As a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. ZPR recommends that you consider High Cost. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## Disciplinary Information

### Item 9

Neither our firm nor any management persons has any reportable disciplinary information



# Other Financial Industry Activities and Affiliations

## Item 10

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships.

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

Item 11

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

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Our Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting us at 386-775-1177.

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

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this Brochure.

## **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities (“block trading”). Please refer to the “Brokerage Practices” section in this Brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, we have instituted policies and procedures to ensure that all our clients are treated equitably regarding the purchase or sale of securities.

# Brokerage Practices

## Item 12

ZPR uses the brokerage services of Grace Financial Group LLC.

We believe that Grace Financial Group LLC. provides quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided including the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of additional brokerage products and services that Grace Financial Group LLC provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

### **Soft Dollar Benefits**

We do not receive any soft dollar benefits from Grace Financial Group LLC.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Block Trades**

We combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as “block trading”). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion, regarding particular circumstances and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

# Review of Accounts

## Item 13

Max Zavanelli and Mark Zavanelli, the principals of the firm, monitor model strategy holdings on an ongoing basis and make changes to the model portfolios as required by changes in market conditions or in accordance with the model's strategy. Individual client accounts are reviewed on at least a monthly basis. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals,
- year-end tax planning,
- market moving events, and/or
- security specific events.

ZPR provides the following monthly reports to clients:

Security Holdings Report

Realized Gains/Losses Report

Performance Summary Report

Transactions Report

In addition, a year to date Gain/Loss Report is prepared for taxable clients in the beginning of the 4th quarter.

## Client Referrals and Other Compensation

### Item 14

ZPR has engaged ZPR Client Management, Inc., an entity independently owned and operated by David Sappir, to enhance client relationships and to introduce qualified prospective clients to ZPR. Consistent with Rule 206(4)-3 under the Investment Advisers Act of 1940, ZPR shall pay a portion of its advisory fees collected from clients introduced by ZPR Client Management, Inc., as well as reimburse it for certain expenses. ZPR Client Management, Inc. has a financial interest in the selection of ZPR to the extent it receives any portion of the advisory fees collected by ZPR. Since the fees paid to ZPR Client Management, Inc. are a portion of the advisory fees collected by ZPR, it does not cause the client to incur any additional fees.

We do not receive any compensation from any third party in connection with providing investment advice to you.

# Custody

## Item 15

We may directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your account(s) causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact us at the telephone number on the cover page of this Brochure.

# Investment Discretion

## Item 16

ZPR has full discretion to determine, without obtaining specific client consent, the securities to be bought and sold and the amount of the securities to be bought or sold per its investment advisory agreement. There are no limits on securities to be bought or sold except that most account contracts do not permit margin trading or short sales. The investment advisory agreement also prohibits real estate, commodities, futures, and tax shelter products.

Accounts are invested according to the model strategy chosen by the Client in the investment advisory agreement. ZPR is not a financial planner and does not advise clients on how to diversify or otherwise balance all the clients' assets.

# Voting Client Securities

## Item 17

ZPR Management, Inc. has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 204(4)-6 under the Investment Advisers Act of 1940. Our authority to vote the proxies of our clients is established by our advisory contracts or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations.

### PROXY POLICY

The theme of ZPR's proxy policy is that votes will be cast with the sole aim of enhancing the value of beneficiary assets, specifically:

- 1) Voting with management on routine matters (e.g., election of Directors, ratification or selection of Accountants).
- 2) Analyzing other management proposals on a case by case basis (e.g., executive compensation, stock option plans).
- 3) Opposing anti-takeover proposals, (e.g., supermajority amendments, unequal voting rights plans), except where special circumstances dictate otherwise.
- 4) All voting records will be retained.

Often we must vote on anti-takeover provisions that can have implications on future stock returns. Provisions such as those which restrict the right for shareholders to call a special meeting, reincorporation, dual voting classes of shares and supermajority voting requirements can be harmful to shareholders according to many studies. All other issues brought forth will be reviewed on a case by case basis with the sole aim of enhancing the value of beneficiary assets. We do not accept direction from you on voting a particular proxy.

Conflicts of interest between our firm, or a principal of our firm, regarding certain proxy issues could arise. If we determine that a material conflict of interest exists, we will take the necessary steps to



resolve the conflict before voting the proxies. For example, we may abstain from voting, follow the recommendations of independent counsel or, we will take other necessary steps designed to ensure that a decision to vote is not the product of the conflict.

We keep certain records required by applicable law in connection with our proxy voting activities. You may obtain information on how we voted proxies and/or obtain a full copy of our proxy voting policies and procedures by making a written or oral request to our firm.

#### CLASS ACTION LAWSUITS

When we receive notice of a securities class action or settlement, we will take any actions as instructed by you or your attorney and in the absence of any such instructions, we shall take any actions (other than those which would be required to be performed by an attorney) which in our sole discretion is determined to be in your best interests.

# Financial Information

## Item 18

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.