



## **City Securities Corporation**

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### **Part 2A Appendix 1 of Form ADV: Wrap Fee Program Brochure**

**October 1, 2012**

This wrap fee program brochure provides information about the qualifications and business practices of City Securities Corporation. If you have any questions about the contents of this brochure, please contact Jennifer M. Haas, Senior Vice President and Chief Compliance Officer, at (317) 634-4400 or via email at [jhaas@citysecurities.com](mailto:jhaas@citysecurities.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 City Securities Corporation also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission (SEC) adopted “Amendments to Form ADV” which updates the disclosure document that City Securities Corporation (City) provides to Clients as required by SEC Rules. This Wrap Fee Program Brochure (Brochure) for City, dated February 22, 2012 is materially different in structure and contains new information that our previous Form ADV did not contain.

In the future, we will discuss only specific material changes that are made to the Brochure and will ensure that you receive a summary of these changes within 120 days of the close of our fiscal year.

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## **Item 4 - Services, Fees and Compensation**

### Services

City has entered into an agreement with Wells Fargo Advisors (WFA), pursuant to which WFA provides advisory and/or other services to Clients of City. City is not related to or affiliated with WFA or First Clearing, LLC (the Clearing Firm). Unless otherwise specified, City or the Clearing Firm will maintain custody of Client assets. T h e Clearing Firm qualifies as a “qualified custodian” as described in Rule 206(4)-2 of the Investment Advisers Act. C i t y , WFA and the Clearing Firm each reserves the right to not provide services to any Client for any reason.

WFA sponsors and provides advisory services to City and you with respect to the following programs: Masters, Diversified Managed Allocations, Wells Fargo Compass Advisory, Allocation Advisors, Customized Portfolios, FundSource, and Pathways. Please review the WFA applicable Wrap Fee Brochure for a complete description of each program, services and fee schedule. While City utilizes the same fee schedule as WFA, City does not use the same related criteria for these accounts. City provides investment supervisory services to these programs which includes oversight of account performance.

City sponsors and provides advisory services to you with respect to the following programs: Private Investment Management, Asset Advisor, Private Advisor Network and CustomChoice. Following is a complete description of each of these programs.

### Asset Advisor

The Asset Advisor program allows you to work with your Financial Advisor (FA) to create an individualized investment portfolio where you ultimately make the investment decisions regarding what to buy, sell and hold within the account. However, your FA provides professional investment advice based on your investment objectives, financial circumstances and risk tolerance. You have the option of accepting these recommendations or selecting different investments for your account. This program includes the benefit of ongoing portfolio monitoring and service.

The fee for Asset Advisor is as follows:

Total Account Value	Maximum Annualized Fee
First \$250,000	3.00%
Next \$750,000	2.50%
Over \$1,000,000	2.00%

### CustomChoice

CustomChoice is a mutual fund advisory program that allows you to construct a portfolio of open-ended mutual funds, including institutional share class, no-load and load-waived mutual funds, aimed at achieving broad diversification. You work closely with your FA through a consulting process to establish an investment strategy and construct your portfolio. In accordance with your individual investment goals, objectives, and expectations, your FA will recommend an appropriate mix of various mutual and money market funds. You have the option of accepting all or some of their recommendations, or selecting an alternative combination of funds for your account. This program offers objective advice, performance monitoring and optional automatic allocation rebalancing.

The fee schedule for CustomChoice is as follows:

Total Account Value	Maximum Annualized Fee
First \$250,000	1.75%
Next \$750,000	1.50%
Over \$1,000,000	1.15%

### Private Advisor Network

Private Advisor Network (Network) allows you access to a comprehensive list of independent investment managers that buy individual securities for your account. Your FA will assist you in matching your investment objectives to an appropriate investment manager and periodically evaluating account performance and changes to your investment objectives. Network is a dual contract program where you sign an agreement with City and an independent investment manager. All accounts are managed by the investment manager you select and neither you, City, nor WFA has authorization to initiate trades in your account. The agreement between you and your independent money manager may be terminated in accordance with the terms of your agreement with them.

You have the choice of compensating City in one of two ways for Network services:

Fee Schedule – You pay a fee with no separate charge being imposed by City for brokerage commissions.

Total Account Value	Maximum Annualized Fee (Excludes Manager fee)
First \$250,000	3.00%
Next \$750,000	2.50%
Over \$1,000,000	2.00%

Execution Schedule - You pay commissions for each transaction in the account at our normal commission rate. You will also be subject to any other fees associated with our standard brokerage accounts, including postage and handling fees, transfer taxes, exchange fees (to include SEC fees), and any other fees required by law assessed by the Clearing Firm or other third parties.

Neither schedule includes the investment advisory fee of the third-party investment manager. The third-party manager, who may bill in arrears, invoices for their fees and you may authorize us to pay the investment fee to the manager by debiting your account. It is your responsibility to determine if invoices from the investment manager are proper or if the amount of fees charged is accurate.

#### Private Investment Management

With Private Investment Management (PIM), select specially trained City FAs (Portfolio Managers) provide investment advisory and brokerage services to your account on a discretionary basis. Discretion enables the Portfolio Manager to execute changes in your portfolio without your consent on each transaction. At a minimum, City requires our Portfolio Managers to possess five years business experience, develop an annually approved business plan, pass a certification exam, plus all required industry examinations, registrations and continuing education and be approved as a Portfolio Manager by both Sales Management and the Compliance Department.

Your Portfolio Manager will manage your assets to a specialized investment strategy, details of which can be found in Item 6 of this brochure. Clients enrolled in PIM should understand their Portfolio Managers investment strategy and acknowledge they will not be consulted on investment transitions in their account.

At this time, City has five approved Portfolio Managers:

Andrew E. Gleaves, APMA, Financial Advisor  
Jack R. Perry, Jr., CFP, AIF, PPC, Financial Advisor  
Paul C. Dietz, APMA, Financial Advisor  
Malcolm R. Frost, APMA, Branch Manager  
Shaun A. Sabau, CFP, Financial Advisor

Below are their fee schedules.

The non-negotiable fee schedule for Mr. Gleaves' PIM accounts is as follows:

Total Account Value	Annualized Fee
First \$250,000	1.25%
Next \$750,000	1.00%
Over \$1,000,000	0.85%

Fees are billed quarterly, must be paid in advance and are deducted from your account.

The negotiable fee schedule for Mr. Perry's PIM accounts is as follows:

Total Account Value	Maximum Annualized Fee
First \$250,000	2.25%
Next \$250,000	1.75%
Next \$500,000	1.50%
Over \$1,000,000	1.00%

Fees are billed quarterly, must be paid in advance and are deducted from your account.

The negotiable fee schedule billed in arrears for Mr. Dietz's PIM accounts is as follows:

Assets held at City:

Total Account Value	Maximum Annualized Fee
First \$250,000	3.00%
Next \$750,000	2.50%
Over \$1,000,000	2.00%

Assets held outside of City (excludes custodial charges):

Total Account Value	Maximum Annualized Fee
First \$1,000,000	2.00%
Next \$4,000,000	1.50%
Next \$5,000,000	1.25%
Over \$10,000,000	1.00%

Mr. Dietz charges advisory fees on a monthly basis in arrears for PIM accounts where assets are held outside of City. The fee will be calculated based on the value of your account on the last day of the prior month and are obtained from the Custodian of the assets. You will be invoiced by City the following business day and fees are due in 30 days.

The negotiable fee schedule for Mr. Frost's PIM accounts is as follows:

Assets held at City:

Total Account Value	Maximum Annualized Fee
First \$250,000	3.00%
Next \$750,000	2.50%
Over \$1,000,000	2.00%

Assets held outside of City (excludes custodial charges):

Total Account Value	Maximum Annualized Fee
First \$1,000,000	1.75%
Next \$4,000,000	1.50%
Next \$5,000,000	1.25%
Over \$10,000,000	1.00%

For calculating billing on Mr. Frost's outside assets, documentation of quarterly account values is provided by the custodian of the assets. Fees are billed quarterly, must be paid in advance are due to be paid within 30 days of bill date.

The negotiable fee schedule for Mr. Sabau's PIM accounts is as follows:

Total Account Value	Maximum Annualized Fee
First \$100,000	2.00%
\$100,001 - \$250,000	1.75%
\$250,001 - \$750,000	1.50%

\$750,001 - \$1,000,000	1.25%
Over \$1,000,000	1.00%

Fees are billed quarterly, must be paid in advance and are deducted from your account.

#### Additional Fees and Compensation Information

All program accounts described in this brochure and all WFA sponsored programs are charged a fee on the total account value that covers advisory, execution, custodial, and reporting services. Fees are billed quarterly, must be paid in advance and are deducted from your account. Our fee schedules may be negotiable depending upon a range of factors including, but not limited to account sizes, type of assets and overall range of services provided. Exceptions to the above are noted, where applicable. A Client's total assets under management may not reduce advisory fees among multiple advisory accounts. If a relationship is terminated during a billing period where fees were charged in advance, fees will be refunded on a pro rata basis calculated by days under active management versus total days in billing period.

A portion of the fees you pay for these programs, ranging from 0.025% to 0.35%, will be paid to the Clearing Firm for services provided to include ticket charges, account billing and quarterly performance reporting. The remaining fee will be paid to City and your FA. You should be aware that program fees charged and compensation earned by your FA may be higher or lower than if you were to select a separate brokerage service and negotiate commissions in the absence of the advisory service provided; hence, FAs may have a financial incentive to recommend a wrap fee program over other fee structures. You should consider the value of these advisory services and the amount of anticipated trading activity when making such comparisons and selecting a program. Advisory programs typically assume a normal amount of trading activity and, therefore, prolonged periods of inactivity or asset allocations with significant fixed income or cash weightings may result in higher fees than if commissions were paid separately for each transaction.

City currently has a revenue sharing arrangement with the Clearing Firm whereby they receive a rebate based on the total value of Client assets under management in their money market mutual funds and the bank deposit sweep program.

City offers a sales incentive program to its FAs that is based on total revenue, growth in revenue, total investment advisory revenue, length of service, and such other criteria as City may establish from time to time. The relevant participation criteria are structured to prevent the incentive to favor any one investment product over another, however, may, in some cases, favor investment advisory (fee-based) account production.

#### Other Account Fees

Your advisory fee does not include commissions on excluded assets, non-brokerage related fees, such as IRA fees or, odd lot premiums, transfer taxes, exchange fees, execution fees (foreign and/or domestic), internal mutual fund expenses, spreads paid to market makers, or any other fees required by law if assessed by the Clearing Firm or other third parties.

### **Item 5 - Account Requirements and Types of Clients**

#### Account Requirements

The minimum initial account values for the Programs in this document and WFA sponsored programs are listed below. Under certain circumstances, the minimum account size may be waived.

Program Name	Minimum Account Size
Network	\$100,000 subject to Manager's minimum
PIM	\$50,000

Asset Advisor	\$50,000
Masters	\$100,000 subject to Manager's minimum
DMA	\$250,000 or portfolio minimum
Wells Fargo Compass Advisory	
Blue Chip	\$50,000
Value Investors	\$50,000
Managed DSIP	\$50,000
Conservative Growth	\$250,000
Moderate Growth	\$250,000
Long Term Growth	\$150,000
Conservative Growth and Income	\$250,000
Moderate Growth and Income	\$250,000
Long-Term Growth and Income	\$250,000
Conservative Income ETF	\$50,000
Conservative Growth & Income ETF	\$50,000
Conservative Growth ETF	\$50,000
Moderate Income ETF	\$50,000
Moderate Growth & Income ETF	\$50,000
Moderate Growth ETF	\$50,000
Long Term Income ETF	\$50,000
Long Term Growth & Income ETF	\$50,000
Long Term Growth	\$50,000
Taxable Fixed Income	\$250,000
Intermediate Taxable Fixed Income	\$250,000
Tax-Exempt Fixed Income	\$250,000
Customized Portfolios	\$2,000,000
Allocation Advisors	
Strategic Portfolios	\$25,000
Tactical Portfolios - Cyclical	\$50,000
Custom Choice	\$25,000
FundSource	\$25,000
Pathways	\$25,000

#### Types of Clients

City provides the advisory services described in this brochure to individuals, pension or profit sharing plans, trusts, charitable organizations, and corporations or other business entities.

## Item 6 - Portfolio Manager Selection and Evaluation

Portfolio Managers (Managers) in our Network program have undergone due diligence by WFA. Cleared Managers must provide an Investment Advisor Questionnaire, a defined investment process, performance history, a Form ADV, and should have at a minimum:

- \$250 million assets under management
- a minimum of two full-time investment professionals managing the portfolio
- a verifiable three-year track record
- be an SEC-registered Investment Advisor
- no significant current or past legal or regulatory problems

Additional factors used to ascertain their overall management capabilities, including the depth, experience and motivation of a management firm's personnel, the soundness of its investment process, the transparency of its compensation structures, and any important recent developments at the firm. Additionally, WFA conducts annual on-site due diligence with Managers that have a minimum \$100 million in assets under management with WFA and who do not currently participate in other WFA advisory programs. All cleared Managers are reviewed annually by WFA and may be removed at any time for failure to meet requirements.

After analyzing the investment Manager's past performance, management style, size of your account, and other factors, your City FA will provide a list of cleared Managers that appear to meet your needs. City does not do business with Managers not appearing on the cleared list. With your FAs assistance, you may then choose one or more investment Managers to manage your assets. Information collected by City regarding Managers is believed to be reliable and accurate but City does not independently verify it. City does not assume responsibility for the conduct of investment advisers that Clients select, including their performance or compliance with laws or regulations.

Criteria used by City for the recommendation of replacing a Portfolio Manager includes, but is not limited to, under-performance to the Managers associated benchmark index for a sustained period of time, change in management at the firm and changes in the Client's investment objective.

Neither City nor a third-party reviews performance information to determine or verify its accuracy or its compliance with presentation standards. Performance calculation may not be uniform or consistent.

### Types of Advisory Services Offered

City offers a number of advisory services to include programs for separately managed accounts, mutual fund advisory accounts, ETF advisory accounts, FA-directed and Client-directed accounts in addition to Financial Planning advisory services. This section deals solely with the Private Investment Management (PIM) FA-directed program sponsored by City. Descriptions of services and fees for other programs and services offered can be found in separate disclosure documents, copies of which are available upon request.

Our five PIM Portfolio Managers develop specific investment strategies which are described below. The difference between managing PIM accounts versus other accounts is the specific strategies listed below are only applicable to PIM accounts and the FA has discretion. Non-PIM program assets do not follow these guidelines and the FA provides recommendations on securities specific to that Client and the Client has the decision on whether to accept the FA's recommendations. In all advisory programs, the FA receives a portion of the fee you pay for the program. Clients should be prepared to bear the risk associated with investing in securities.

**Mr. Gleaves** offers two different investment strategies; Dynamic Asset Level Investing (DALI) and Rising Income 30. The DALI utilizes a relative strength based methodology, called Dynamic Asset Level Investing (or DALI), to develop a portfolio of all types of assets. DALI provides a snapshot of the markets allowing him to adapt and change portfolio investments as markets change. To start, all securities are divided into seven levels where he performs relative strength comparisons within each level to determine the optimal allocation for the portfolio. A brief overview of each of the seven levels is listed below:



Level One – Broad Allocation Focus: This level is designed to help make broad allocation decisions. The securities being evaluated for Level One include Commodities, Foreign Currencies, Domestic Equities, International Equities, Fixed Income, and Cash. The purpose of Level One is to identify broad areas of the markets to focus on by identifying up to two asset classes that have superior relative strength when compared to the others. In the event that there are no asset classes with superior relative strength to Cash, the level will default entirely to Cash. Level One is the chief contributor to the overall asset allocation and risk management of the portfolio – this is why it comprises 40% of our model.

Level Two – US Equity (Broad Market): We compare all S&P 500 companies on a size basis (larger companies have a disproportionate impact on the performance of the index) to the S&P 500 companies on an equal weighted basis (all 500 companies in the index have an equal impact on performance) and invest in the category with the best relative strength.

Level Three – US Equity (Market Capitalization): We compare the Large, Mid and Small Capitalized areas of the market and invest in the category with the best relative strength.

Level Four – US Equity (Style): We compare the Value, Blend, and Growth areas of the market and invest in the category with the best relative strength.

Level Five – US Equity (Sector): From a pool of eleven sectors, we narrow it down to the top three in terms of relative strength. Levels 2-5 combine to form the domestic equity portion of our portfolio and cumulatively comprise 25% of the model.

Level Six – Global: We start with a comparison between Developed and Emerging International Markets to see which broader global area has the best relative strength. For this comparison we are not determining whether or not the international markets are favored versus the other asset classes, like Fixed Income or US Equities (that is a comparison done in Level One), but rather merely how Developed Markets compare to Emerging Markets. The second part of Level Six is to identify and invest in the country/region with the best relative strength in the favored global area (developed or emerging). Level Six comprises 10% of our model.

Level Seven – Fixed Income: We compare the Corporate, Treasury, Agency, High Yield Corporate, Inflation Indexed, International, and Broad Based areas of the US fixed income market and invest in the two categories with the best relative strength. Level Seven comprises 25% of our model.

The above seven levels are combined to create Mr. Gleaves' Tactical ETF Portfolio. The goal of this investment approach, which can be as aggressive as 75% equity - 25% bonds/cash and as conservative as 35% equity - 65% bonds/cash, is to provide a well diversified portfolio allocation based upon the current investment environment. Exchange traded index funds (ETFs) are utilized to execute the portfolio strategy due to the predictable nature of their holdings, their ability to be traded intra-day, the diversification within their respective investment categories, and their low expense ratios.

In the Rising Income 30 strategy, Mr. Gleaves will utilize the Wells Fargo Advisors Diversified Stock Income Plan (DSIP) list of stocks and screen them through the Standard and Poor's (S&P) star ranking system. DSIP is a preselected, regularly reviewed list of stocks chosen because of the likelihood of the companies to consistently raise annual dividends. The goal of DSIP is to find stocks across all ten S&P market sectors with attractive current yields that are likely to result in a growing stream of income over time while taking into consideration company fundamentals. Mr. Gleaves will only consider for purchase those stocks from the DSIP list that are rated 3 stars or higher by S&P and anticipate that the portfolio will be made up largely of 4 and 5 star rated companies. All holdings making the S&P star-based cut will be applied to a formula based on current dividend yield, estimated annual dividend growth and estimated earnings per share growth. This formula will narrow down the list of stocks of which the best scoring stocks in a given sector will be purchased for the portfolio.

Each chosen stock will remain in the Rising Income 30 portfolio until it is either removed from the DSIP list or falls below a 3 star rating with S&P, at which point Mr. Gleaves will apply the screening process to the remaining DSIP stocks in the sector and purchase an equal amount of the highest scoring stock as a replacement. The portfolio is intended to hold 30 companies spanning all 10 broad-based economic sectors. In the event that there are not enough companies that pass the screening process in a given sector, Mr. Gleaves will hold the equivalent amount in cash until a suitable addition is found via the described screening process.

While Mr. Gleaves does not customize his services to your individual situation nor does he allow investment restrictions from you, your investment objective does determine the total amount of assets invested into his strategy.

**Mr. Dietz's** portfolio strategy is developed in accordance with your Investment Policy Statement using guidelines specific to your risk parameters and investment objectives. You may be invested in: Cash - Money Markets, Commercial Paper, T-bills, CDs; Fixed Income – U.S. Treasuries, U.S. Agencies, Corporate Bonds, Municipal Bonds; Equities – Individual Stock, Preferred Stock, ETFs, REITs, and Mutual Funds. Choice of Fixed Income Investment will be determined by the current yield curve and general projections of future interest rate movements by City's Trading Desks and accompanying research. Individual equities will be chosen based on research from numerous sources, earning revisions, price targets, technical and fundamental analysis, and relevant company or industry news.

Mr. Dietz provides advisory services that are individualized with respect to allocation, risk, and investment objective. The percentage breakdown of cash, fixed income, and equities/options is developed in accordance with your Investment Policy Statement (IPS). You may not impose investment restrictions in this strategy.

**Mr. Perry's** investment strategy uses Modern Portfolio Theory. Most investments in his strategy are exchanged traded funds (ETF) that match the corresponding indices. These publicly traded funds are intended to closely parallel return, risk, and correlation characteristics as the asset classes they represent. His strategy may include closed-end funds (CEF) which are listed on the national exchanges and trade like stocks. CEFs could replace an ETF in the same asset class if the ETF's market price reaches a predetermined target. Should this target be reached, the ETF is sold and a like amount is of the CEF is purchased. If a sale target is reached, the opposite tactic is employed.

Closed-end funds often sell at a discount to their net asset value per share and discounts to net asset value are the norm in this market. Mr. Perry's Pricing Model helps identify when a close-end funds discount has widened far enough to warrant a buy and narrowed enough to encourage a sale. The model tells him how a particular fund will perform relative to the asset class to which it belongs. If the discount is wide enough and the security is bought, the security should beat its benchmark index. If the discount is uncommonly narrow, the closed-end fund will typically underperform its asset class. The Pricing Model is designed to only give signals when the probability for success is high. Buy signals can be infrequent depending on the specific volatility of the market price of the closed-end fund.

Mr. Perry's Clients complete a Risk Tolerance Questionnaire annually. The result of the questionnaire and the maximum level of loss you are willing to accept for your account determine which of Mr. Perry's 5 portfolio's best fit you. Mr. Perry does not permit investment restrictions in his portfolios.

**Mr. Frost** develops his investment portfolio by selecting equities identified by Standard and Poor's research (S&P). S&P has been rating stocks for a number of years, is an independent research provider and rates stocks on a 1 to 5 STAR rating system with 5 STAR being the best and 1 STAR being the worst. His buy side discipline includes purchasing securities that are rated either 4 or 5 STARS by S&P. As a further part of this discipline, he looks to see how other well-known securities research firms are rating the security as part of the consideration as to whether or not to purchase the security. Mr. Frost will hold 4 & 5 STAR rated stocks unless there is concern with a security created from negative news or earnings announcement, concern with that security sector or some other indication, such as another firm's research, he may sell it despite the 4 or 5 STAR rating. All portfolio stocks that fall to a 3 STAR rating will be reviewed for potential sale utilizing current news, sales and earnings, other firm's research and ratings. All stocks that fall to 1 or 2 STAR rating will be sold unless underlying information warrants holding the position, such as independent research maintaining a positive rating. This decision would be explained to you.

In some instances, Mr. Frost utilizes a covered call option strategy to increase performance of the account. His strategy is to predominately write covered calls with an expiration date no longer than 2-3 months and with a predetermined return which may vary depending on market conditions. He may utilize either an Exchange Traded Fund or a Closed End Fund to gain access to a part of the market for adequate diversification and relies on research available from the Clearing Firm in making investment decisions. For fixed income investments, Mr. Frost follows your Investment Policy Statement (IPS) for direction on what type of securities can be purchased. This may include, in addition to the above discussed securities, US government and agency backed bonds, FDIC Insured instruments, and "corporate bonds with

an A credit rating or better. In addition to the credit rating of the corporate bonds, Mr. Frost also looks to see if the corporation is on negative credit watch, reviews fundamental research and reviews any recent news.

Mr. Frost's advisory services are individualized with respect to your allocation, risk, and investment objective. The percentage breakdown of cash, fixed income, and equities/options is developed in accordance with your IPS. You may not impose investment restrictions in this strategy.

**Mr. Sabau's** investment strategy is guided exclusively through the Diversified Stock Income Plan (DSIP) formulated by Wells Fargo Advisory Services Group (ASG) and does not allow you to impose investment restrictions.

The DSIP is a preselected, regularly reviewed list of equities chosen because of the likelihood of the companies to consistently raise annual dividends. The goal is to find equities with attractive current yields (greater than 1%) that are likely to result in a growing stream of income over time while taking into consideration company fundamentals. The equities on the list are categorized according to market sector to facilitate construction of a well-diversified portfolio across various sectors.

The methodology for choosing stocks is a focus on finding companies that are fundamentally sound, have historically paid dividends well-covered by free cash flow, operate generally mature, defensive businesses and most importantly, offer the potential to consistently raise their annual dividends. The portfolio will contain roughly 60 to 80 positions in at least six to eight sectors with different investment characteristics, no more than 25% of the total portfolio value in any one sector and no more than 15% of the total portfolio in any one equity position. The main reason for a position to be removed from the portfolio is because it is no longer considered to be a company with good prospects for consistent dividend growth which typically happens when the criteria which caused the stock's addition to the portfolio begins to deteriorate. Common examples of deteriorating dividend growth potential includes: unsustainably high payout ratio (dividends/EPS), prolonged weakness in earnings growth and/or deteriorating balance sheet strength.

Your account will begin with 4% allocated to cash and through strategy notices provided by ASG, Mr. Sabau will purchase equities in your account with equal weightings across all positions. All dividends will be paid to the account in cash and no rebalancing will occur. When there is not enough cash to purchase an equity added to the DSIP list, the position will be added at the time cash is available and the amount purchased will be determined by the total value of all positions and the number of positions in the account.

#### Voting Client Securities

For all assets held at City, your FA does not have authority to vote Client proxies. Proxies will be sent to you directly from the Clearing Firm. You may contact your FA via phone or email with questions about a particular solicitation.

For assets held outside of City, authorization to vote proxies may be granted through your advisory contract. If authorization is given to your FA, proxies will be directed from the custodian of your assets directly to your FA and you are then unable to direct any votes until you revoke that authorization. Your FA will vote your proxies solely in your best interests. Your best interest is determined by consider only those factors that relate to your investments, including how their vote will economically impact and affect the value of your investment. Proxy votes will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, and maintain or increase the rights of shareholders. Proxy votes will be cast against proposals having the opposite effect. In voting on each and every issue, they will vote in a prudent and diligent fashion and only after a careful evaluation of the issue presented on the ballot. You may call or email your FA to obtain information on how they voted any proxies. In voting proxies, should a conflict of interest arise between you and your FA or City, your FA will provide you with sufficient information regarding the vote as well as the potential conflict and obtain your consent before voting.

#### **Item 7 - Client Information Provided to Portfolio Managers**

City gathers information from you to help provide appropriate and suitable investment advice regarding securities in all advisory programs. City will not share your information with unaffiliated parties. Please consult City's privacy policy for further details about Client privacy and information sharing.

## **Item 8 - Client Contact with Portfolio Managers**

If you have any questions regarding your advisory program accounts, please contact your FA.

## **Item 9 - Additional Information**

### Disciplinary Information

Following a review of City's auction rate securities (ARS) business for the period May 31, 2006 through February 28, 2008, the Financial Industry Regulatory Authority (FINRA) alleged that the Firm used a written publication with Clients and prospects which related to ARS but which did not adequately address the risks of investing in the product; that the Firm did not establish and maintain appropriate procedures governing the marketing and sale of ARS; and that the Firm did not provide sufficient training to its FAs on the subject of ARS. City entered into a Letter of Acceptance, Waiver and Consent (#2008015271401) wherein, without admitting or denying the findings, the Firm consented to the proposed sanctions and the imposition of a censure and fine in the amount of \$250,000 (which fine was paid in full on September 15, 2009).

### Other Financial Industry Activities and Affiliations

City Financial Corporation (CFC) is the holding company for City. In addition to being a registered investment adviser, City operates as a full-service broker-dealer, serving Clients in the areas of public finance, corporate finance, municipal trading and underwriting, taxable fixed income trading, private client and institutional investment services.

CFC's other subsidiaries include City Real Estate Advisors, Inc., (a full service tax credit syndicator specializing in low income housing tax credits that provides equity for affordable housing throughout the United States), City Investment Group (comprises CFC's private investment activity) and City Securities Insurance, LLC. (an independent insurance agency that sells property, casualty, life and health insurance).

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

We have adopted a Code of Ethics (Code) which is based on the principle that we, and each of our employees, owe a fiduciary duty to you and a duty to comply with federal and state securities laws and applicable regulatory rules. These duties include the obligation of Access Persons (defined below) to conduct their personal securities transactions in a manner that does not interfere with your transactions or otherwise take unfair advantage of their relationships with you. In recognition of this duty, we implemented the following general principles to guide the actions of Access Persons:

- Access Persons have a duty at all times to place your interests first.
- Access Persons have a duty to conduct all personal securities transactions in a manner consistent with our Code and in such a manner as to avoid any actual or potential conflict or abuse of a position of trust and responsibility.
- Access Persons must refrain from actions or activities that call into question the Access Person's independence or judgment.
- All personal securities transactions by Access Persons must be accomplished so as to avoid even the appearance of a conflict of interests with you.

These duties extend beyond fiduciary obligations, personal trading and compliance with laws discussed above. A copy of our full Code of Ethics is available upon request without charge by contacting us at the e-mail address on the front cover of this Brochure. For purposes of our Code, Access Persons include our directors and officers; our employees who have access to nonpublic information relating to Clients; our employees who are involved in making securities recommendations for Clients; and any spouse, minor child or resident in the household of a person named above.

FAs may execute securities transactions in brokerage accounts on behalf of financial planning Clients and be paid commissions for such transactions.

We or our employees or related persons may, from time to time, invest in securities our FAs may also recommend to you. Neither we nor our FAs sell our personal interests in any investment products directly to you or acquire personal interests in any investment products directly from you. We do not restrict our FAs from making investments for themselves or related persons that are consistent with the investment advice rendered to you.

City occasionally recruits what it believes are skilled and highly productive FAs. It is routine in the investment industry for employers to recruit such individuals and to offer them a forgivable loan as an incentive to join the firm. A forgivable loan results in an immediate payment to the FA in the form of a loan which must either be forgiven or repaid. Terms of such loans vary but are generally for a period of three to seven years. In some cases, if the FA meets certain pre-established production goals, a portion of the loan is forgiven at the conclusion of each year. If the FA meets the production goals over the course of the loan, then the entire loan amount is forgiven. In other cases, the FA may be required to meet a pre-established aggregate production goal at which time the loan is forgiven in full. City occasionally utilizes such forgivable loans. In light of the production goals, there may be an incentive for an FA to engage in conduct that will assist the FA in reaching those goals, even if those actions may not be in the best interests of a Client. In addition, in light of City's investment in the FA, the firm may have an incentive to allow the FA greater latitude with respect to the FA's business practices. City believes it has a duty to review and supervise all actions by its FAs, regardless of the existence of a forgivable loan, and makes every effort to assure that all actions are in the best interests of its Clients.

The vast majority of FAs employed by City are dually licensed as both an investment adviser representative and a general securities representative. Depending on the services provided to a Client and a variety of other factors, it may be in the best interest of a Client to maintain their assets in: (1) a brokerage account which will incur commissions on each transaction or (2) an investment advisory account which will incur an annualized fee based on a percentage of the account value. A conflict may exist when an investment advisory account with relatively low activity generates greater income to the investment adviser representative than had the assets been maintained in a brokerage account. Conversely, a conflict may exist when a brokerage account with relatively high activity generates greater income to the general securities representative than had the assets been maintained in an investment advisory account. In addition, the portion of fees paid to the investment adviser representative may be greater for investment advisory accounts than the portion of commissions paid to the general securities representative for brokerage accounts.

Each FA associated with City has an ethical duty to deal fairly with Clients and to assure that, based on a number of factors, that the account recommended to each Client is the account best suited for that Client and the Client's individual investment needs. Firm management routinely reviews the level of activity in each account and the services provided to each Client to further assure that the assets you have entrusted to City are positioned in the type of account that is in your best interests.

While all persons associated with City make every effort to enter transactions accurately, errors will occur on occasion. City will promptly correct all errors following their discovery. In the event an error results in a loss to a Client's account, City will absorb that loss. In the event an error results in a gain to a Client's account, City will retain that gain. In either event, a Client's account will not be affected by any error made by City or its associated persons.

#### Review of Accounts

All activity in program accounts discussed in this Brochure and programs sponsored by WFA are reviewed by a Sales Manager through our electronic supervisory system. Any alerts that are generated through the supervisory system may trigger additional account review. In addition to daily account activity reviews, a random sampling of program accounts is reviewed by the Compliance Department as part of the annual branch review. This review entails a sampling of accounts for required documentation and adherence to firm policy.

Participants in these program accounts receive trade confirmations for all security transactions and at a minimum, quarterly account statement (monthly if account activity warrants) sent from the Clearing Firm. City does not create account statements and Clients should carefully review statements for accuracy. In addition, quarterly performance statements are sent by WFA that may include comparisons to selected industry indices or benchmarks.

#### Client Referrals and Other Compensation

From time to time, our FAs may compensate a non-supervised person for a Client referral in the form of a gift not exceeding SEC or FINRA guidelines.

#### Financial Information

City does not require or solicit prepayment of more than \$1,200 in fees or six months or more in advance and is not required to include a current balance sheet. City has not been the subject of a bankruptcy petition at any time during the past 10 years and has no additional financial information to report.

City has an intercompany receivable due from its parent, City Financial Corporation (CFC), of approximately \$3 million. This loan was the result of capital needed by another of CFC's wholly-owned subsidiaries, ReCasa Financial Group (RFG). RFG has since been sold and a new CFC subsidiary was created to facilitate the collections and wind-down of the existing loans on the books. It is anticipated that the majority of this balance will be repaid upon final liquidation of these loans; however, that may take one to two years to fully complete given most of these real estate related loans are in workout status.