



## **Firm Brochure**

(Part 2A of Form ADV)

# **MERITAGE PORTFOLIO MANAGEMENT, INC.**

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This brochure provides information about the qualifications and business practices of Meritage Portfolio Management, Inc., a registered investment adviser. If you have any questions about the contents of this brochure, please contact us at 913-345-7000 or via email at [contact@meritageportfolio.com](mailto:contact@meritageportfolio.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 Meritage Portfolio Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration of an Investment Adviser with the SEC does not imply a certain level of skill or training.

MARCH 30, 2012

## Material Changes

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There have been no material changes since our March 30, 2011 brochure filing.

Whenever you would like to receive a complete copy of our Brochure, you may contact us at 913-345-7000 or via email at [contact@meritageportfolio.com](mailto:contact@meritageportfolio.com). A new Brochure will be provided as necessary based on changes or new information, at any time, without charge.

Our Brochure is also available on our website, [www.meritageportfolio.com](http://www.meritageportfolio.com), also without charge.

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# Advisory Business

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## Firm Description

Meritage Portfolio Management, Inc. ("Meritage") was founded in 1991, originally bearing the names of the four founding principals, Eveans, Bash, Magrino and Klein, Inc.

Meritage provides personalized investment management on a discretionary basis to individuals, families and a variety of institutional clients including employee benefit plans, foundations, endowments and public funds. Besides the management of discretionary investment advisory accounts, Meritage provides asset allocation advice and general investment planning reviews for clients. Advice is provided through consultation with the client, gathering of pertinent data, and employment of quantitative planning tools resulting in a joint determination of an appropriate long-term asset allocation policy.

Meritage is a fee-only investment management firm. The firm has a six person investment team that includes five Chartered Financial Analysts (CFA) and one trader. All decisions impacting portfolio holdings are made by the respective lead managers for each of the firm's three specific equity strategies, as well as both taxable and tax-exempt fixed income strategies. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products, nor is the firm affiliated with entities that sell financial products or securities. No commissions or finder's fees in any form are accepted.

Meritage does not act as a custodian of any client assets. The client maintains asset control at all times via a qualified custodian and receives regular statements from Meritage and from the custodian.

Comprehensive communication is provided directly to the client on a quarterly basis that includes a market overview, a detailed report of portfolio holdings, a history of purchase and sale transactions for the quarter and performance data along with appropriate market benchmarks. Clients have the option of receiving their correspondence via regular mail or electronic delivery. Annual face-to-face reviews are recommended for each client and can be more frequent if desired, or as might become necessary because of a change in the client's personal situation or market conditions.

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## Principal Owners

Meritage has two employee owners, Mark E. Eveans and James M. Klein, who each own in excess of 25% of the company stock. Two other associates, Leonard C. Mitchell and Sharon L. Divine, own minority interests in the firm. Meritage believes that employee ownership is a characteristic that fuels motivation and contributes to the stability of personnel.

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## **Types of Advisory Services**

Meritage manages discretionary investment advisory accounts using any combination of three distinctive equity management styles: Value, Growth and Yield-Focus. Meritage also manages taxable and tax-exempt fixed income strategies, managed in a conservative fashion because we believe the purpose of a bond portfolio is to lower overall portfolio risk and provide consistent income. Many clients retain us for a single strategy, but the majority of clients ask us to manage balanced portfolios which combine fixed income with either single or multiple equity strategies.

Before Meritage can recommend any asset allocation strategy to the client, we examine six key areas:

- Overall Investment Objective. By learning what the client wants to achieve with the assets and by learning any restrictions that would conflict with the intent of the client, we can better understand how to structure the portfolio to conform to the client's unique needs.
- Risk Tolerance. Meritage wants to design a structure for each client that meets an appropriate balance of risk and reward.
- Cash Flow Needs and Income Expectations. By understanding the liquidity needs of our client, we can better assess the balance needed between income-producing investments and investments that are dedicated to market value appreciation.
- Growth Objectives. By understanding the client's need for asset growth, we can better weigh the short-term needs for cash availability versus the long-term needs for asset market value growth.
- Time Horizon. Understanding the true life-span expected from a pool of assets allows us to structure the overall portfolio asset mix properly.
- Adaptability. Client situations and the market conditions change. Changes to the portfolio mix of stocks and bonds may be necessary to adapt to new realities.

After the initial assessment of these areas, Meritage will evaluate the client's current portfolio using our own investment tools and explain how our investment approach may differ from the current management. We will also discuss and come to agreement with the client as to how to proceed with the transition to our management style and in what time frame that is to be done.

Meritage will also furnish advice to clients on matters not directly involving securities, such as investment planning matters, income tax issues and trust and custody services.

As of March 30, 2012, Meritage Portfolio Management, Inc. manages approximately \$1.1 billion in assets for 480 clients in 1,100 accounts. All assets are managed on a discretionary basis.

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**Tailored Relationships**

Individualized investment objectives for each client account are documented in writing and acknowledged by the client. When a client chooses an equity strategy, their portfolio holdings will mirror the holdings of another client in the same equity strategy. Overall portfolio risk, however, may be different depending on the amount of the portfolio allocated to the various distinctive equity styles.

While clients may impose restrictions on certain industries or specific companies, such practice is discouraged as it will potentially cause the performance of the account to be different than our non-restricted strategies.

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**Types of Agreements**

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**Investment Adviser Agreement**

Clients employ Meritage to act as investment adviser for their account(s) with the execution of an Investment Adviser Agreement. This agreement gives Meritage full power to supervise and direct the investment of the account(s) by implementing investment decisions without prior consultation of the client, but according to the guidelines and objectives set for each account.

Although the Investment Adviser Agreement is an ongoing agreement, the client or Meritage may terminate an Agreement at any time by written notice to the other party. At termination, fees will be billed or refunded on a pro rata basis for the portion of the quarter completed, adjusted for the number of days during the billing quarter prior to termination.

Client agreements may not be assigned without written client consent. Consent would be required in the event of a significant change in ownership.

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**Fee Schedule**

A separate fee schedule is also executed for each account. The annual Advisory Service Agreement fee is based on a percentage of the market value of the account assets including accrued income, according to the following standard schedule:

- 0.875% on the first \$2,500,000;
- 0.750% on the next \$2,500,000 (from 2,500,001 to 5,000,000);
- 0.625% on the next \$5,000,000 (from 5,000,001 to 10,000,000);
- 0.500% on the assets above \$10,000,000.



There is no minimum quarterly or annual fee.

Fees may vary among accounts based on investment objectives and/or portfolio size and may also be negotiated based on other factors such as private relationships versus public institutional relationships.

Fees are typically billed quarterly in advance based upon the market value of the portfolio including accrued income on the last business day of the previous quarter, unless specifically negotiated differently. Any assets specifically designated as unmanaged will be excluded from the quarterly fee calculation.

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### **Investment Policy Guidelines**

The Investment Policy Guideline Agreement documents the client's agreed upon objectives for each account, including style of equity and fixed income management plus the investment ranges and targets for the account. Assets are invested in publicly traded common stocks, bonds and exchange-traded funds, usually through brokers as selected by Meritage.

Investments can typically include: equities (common and preferred stocks), U.S. government debt securities, corporate debt securities, commercial paper, certificates of deposit, municipal securities, exchange traded funds, publicly traded master limited partnerships, real estate investment trusts, royalty trusts, and business development companies. Other investments can include option contracts, futures contracts or investment company securities as may be specifically noted for some clients.

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### **Termination of Agreement**

A client or Meritage may terminate any of the aforementioned agreements at any time by notifying Meritage in writing. If the client made an advance payment of advisory fees, Meritage will refund any unearned portion of the advance payment. The agreement is not assignable by either party.

## **Fees and Compensation**

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### **Description**

Meritage bases its fees solely on a percentage of assets under management. Please refer to the "Fee Schedule" section included under "Types of Agreements" above for further detailed discussion.

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### **Fee Billing**

Investment management fees are billed quarterly in advance, meaning that we invoice you at the beginning of the three-month billing period. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account. The client may direct

that the invoice be presented to a different account than the one under management for deduction, or may request that the invoice be sent for direct payment by the client.

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**Other Fees**

The fees charged by Meritage do not include custodial fees or trading costs incurred in buying and selling securities. Custodians may charge transaction fees, over which Meritage has no control, on the settlement of purchases or sales of stocks, bonds, exchange-traded funds and other securities. Instead of transaction fees, some custodians may charge a monthly or quarterly fee based on the market value of the assets held in the account, which is the standard practice of many custodians.

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**Expense Ratios**

Meritage is a subadvisor to collective trusts sponsored by Benefit Trust Company and to common trust funds sponsored by Midwest Trust Company. Meritage is compensated directly by the sponsoring entity of each of the funds and the funds are available to clients of Meritage if assets are custodied at either of these Trust Companies. Meritage receives an annual rate of .65% of the total .95% annual fee for management of several equity funds, a .30% annual rate from a total of .40% for fixed income funds. Assets invested in the collective trusts of Benefit Trust and in the common trust funds of Midwest Trust are not subject to additional management fees from Meritage.

Exchange Traded Funds (ETFs) funds generally charge a management fee for their services as investment managers and are used on occasion by Meritage for a certain segment of the market or for small accounts which cannot be efficiently managed with individual security names. The management fee is called an expense ratio. For example, an expense ratio of 0.10 means that the investment company charges 0.1% for their services. These fees are in addition to the fees paid by the client to Meritage. Meritage does not receive any part of this expense ratio cost. The management fee for ETF funds is subtracted from the net return generated by the fund.

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**Past Due Accounts and Termination of Agreement**

Meritage reserves the right to stop work on any account that is more than 120 days overdue. Any unused portion of fees collected in advance will be refunded within 10 days in the event of termination of the management advisory agreement.

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**Performance-Based Fees**

Performance-based compensation can create an incentive for an adviser to recommend an investment that may carry a higher degree of risk to the client.

Meritage does not use a performance-based fee structure because of the potential conflict of interest these can create, nor are any fees based on a share of the capital gains or capital appreciation of managed securities.

## Types of Clients

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### Description

Meritage generally provides investment advice to individuals and their family members, trust companies, pension and profit sharing plans, Taft-Hartley plans, trusts, estates, charitable organizations and foundations, corporations and other business entities.

Client relationships vary widely in terms of scope, size and length of service.

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### Account Minimums

The minimum relationship size is \$1,000,000 of assets under management, which equates to an annual fee of \$8,750 based on our standard fee schedule.

Should a relationship fall below \$1,000,000 in value, there is no minimum annual fee charged.

Meritage has the discretion to waive the account minimum. Relationships of less than \$1,000,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$1,000,000 within a reasonable time. Other exceptions will apply to employees of Meritage and their relatives, or relatives of existing clients.

## Methods of Analysis, Investment Strategies and Risk of Loss

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### Methods of Analysis

The Meritage investment process is based on the belief that the most efficient method of identifying mispriced stocks is by applying a comprehensive quantitative (i.e., numbers-based) research process. Valuation is at the core of everything we do. We focus on the underlying value of a company's stock in relation to its current market pricing. Quantitative processes like those used at Meritage have benefits in that they allow investors to develop a consistent method to analyze a broad range of companies. Additionally, this method helps remove the emotion from decision-making and allows the investment decision to be more objective.

Key components of the Meritage investment process are the numerous information services that feed data into our custom security screening and evaluation process. Currently, we analyze approximately 5,300 U.S. stocks and 1,200 non-U.S. stocks for all three equity styles. The first step in our process eliminates companies with a total market value under \$200 million

and those of poor financial quality. The resulting group of companies is further analyzed using our multiple factor custom ranking system, resulting in an internal rating from 1, being the best investment opportunity, to 100, representing the least favorable opportunity.

The Meritage quantitative analysis evaluates companies based on 4 conceptual categories:

- Valuation
- Business Momentum
- Investor Sentiment
- Business' Management IQ

All three of our equity management styles, Value, Growth and Yield-Focus are based off of this fundamental work with additional factors under each of these general concepts.

A qualitative analysis of the best ranking companies in the narrowed security selection is then done by the investment team before making the final security selection. This quality analysis includes an assessment of the individual factor results to verify the integrity of the data received and to understand the fundamental investment case. The Meritage investment team also looks for other information that might impact a stock's short-term valuation such as current events and newly released information which could include items such as competitor information or management changes.

Other sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by other entities and individuals, corporate rating services, timing services, corporate annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases and the world wide web.

Besides a disciplined buy approach to the construction of portfolio holdings, there are specific criteria for the sale decision as well. The same quantitative process used in the buy process described above is constantly applied to the holding once purchased. Factors employed in the sale process can include:

- An erosion of the Meritage investment process ranking due to market price increases or negative factors,

- A deterioration of company fundamentals due to changes in management, business model or strategy,

- Or, as a result of risk control factors such as the holding rising to more than a 3% or 4% equity holding.

Our quantitative framework helps maintain the specific structure of each of the three equity styles. Meritage's quality analysis work aims to preserve the strength of the number-based rankings while reducing blind spots, which are in the nature of all quantitative models. Investment team members may contribute to each style, but the lead manager is exclusively focused on their own portfolio.

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## Investment Strategies

Meritage offers three distinct equity styles of management that are all supported by the custom, internally-built investment selection process using the quantitative and qualitative methods discussed under the above section “Methods of Analysis”. We would describe the Value, Growth and Yield-Focus styles as all being value-centered in their underlying principles.

Whether one or more of the Value, Growth or the Yield-Focus equity styles is appropriate for a client will depend upon client input regarding multiple inputs:

- Individual risk tolerance
- Time horizon of the funds being managed
- Income and liquidity needs
- Return objectives
- Income tax consequences
- Structure of other investments
- Investment restrictions

The equity styles are similar in that Meritage is constantly equating what is paid relative to asset values and conservative estimates of cash flow growth. The styles differ in their overall valuation and growth characteristics, as well as distinctly different market sector weightings.

The **Value** style of equity management incorporates 13 primary factors to assess valuation, momentum, investor sentiment and company management. This style typically results in a portfolio of 45 to 60 stock holdings with positions of 1% to 3% each. Typically around 20% of the portfolio may be invested in non-U.S. securities. Long term average portfolio turnover typically ranges between 30% and 50% annually. The investment benchmark for comparison of results for this all equity strategy is typically the Lipper Large Cap Value Index or the Russell 1000 Value Index.

The **Growth** style uses the same 13 factors used by the Value style but incorporates 4 additional factors related to growth indicators, with the largest weighting on these added growth indicators. The Growth style portfolio typically consists of 45 to 60 individual stock holdings with weights of 1.5% to 4% each. Like the Value strategy, the Growth strategy typically has around 20% in non-U.S. securities. Long term average portfolio turnover typically ranges between 40% and 60% annually. The investment benchmark for this all equity strategy is typically the Lipper Large Cap Growth Index, the Russell 1000 Growth Index, or the S&P500.

The **Yield-Focus** style is based on the idea that securities that combine equity-type characteristics with high levels of income have an attractive total potential return, along with generally lower risk. The Yield-Focus style uses the same factors for asset selection as the Value strategy, but with an additional focus on dividend yield and other cash income payments by the selected securities. The Yield-Focus style portfolio generally has 45 to 60 securities in the portfolio, including some publicly traded master limited partnerships, real estate investment trusts, preferred stocks, royalty trusts and

business development companies along with common stocks. The typical security position in this style is 2% to 3%. This strategy may have up to 33% of the portfolio in non-U.S. securities. The Yield-Focus style typically has lower turnover than the Value or Growth styles, averaging between 30% and 40% annually. While the Yield-Focus style is a cash flow income generator, it is still an equity strategy with exposure to market risks. The investment benchmark for this strategy is generally the Dow Jones Select Dividend Index or the Russell 3000 Value Index.

We are comfortable providing additional insight into the Meritage investment process for clients and prospects to understand the workings of the quantitative investment process for equity management as well as the qualitative overlay.

Fixed income management is focused on tax-exempt bonds or on high quality corporate and U.S. Government and agency bonds, depending on the underlying tax status and marginal tax rates of the account being managed. Our fixed income philosophy is to use this portion of the portfolio to lower total portfolio risk and generate consistent income inside a balanced framework using both bonds and stocks. Custom portfolios based on client income needs with an emphasis on capital preservation are also provided. Meritage is sensitive to market sector risk diversification within the fixed income strategy as well, paying attention to the life of the bond holdings and the effect of inflation expectations and broad market expectations along with the credit worthiness of the bond issuer.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations and as agreed upon and documented in the written Investment Policy Guidelines. A typical individual client elects one or more equity strategies from the Value, Growth or Yield-Focus options, along with either a taxable or tax-exempt fixed income strategy for a balanced portfolio asset allocation. These guidelines are reviewed regularly for each client and the client may change these guidelines at any time.

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## **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Regardless of the equity strategy or fixed income approach, there is no guarantee to a level of performance. Your account may decline in value.

Our investment approach constantly keeps the risk of loss in mind. In our opinion, a well diversified investment strategy across equity styles, along with an appropriate allocation to high-quality fixed income, is the best way to deal with all the different investment risks faced.

Investors face the following investment risks:

- **Market Risk:** The price of a bond, common stock or other security may drop in reaction to tangible and intangible events and conditions. This

type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events, as can weather or natural disasters.

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar compared to the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, an integrated oil company depends on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric utility company which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. Small companies may be especially sensitive to this risk.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in poor operating performance, bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Meritage or the integrity of Meritage's management.

Meritage and its associates have not been involved in any legal or disciplinary events related to past or present investment clients.

## **Other Financial Industry Activities and Affiliations**

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### **Financial Industry Activities**

Neither Meritage or its management are registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

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### **Affiliations**

Neither Meritage or its management has arrangements that are material to its advisory services or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

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

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### **Code of Ethics**

All of the associates of Meritage are committed to a Code of Ethics. The principles of honesty, integrity and professionalism are stressed as being of utmost importance. The independence of Meritage personnel in the investment decision-making process is paramount to the operations of the entity. At all times, the duty of Meritage associates is to place the interest of clients first. All associates are required to conduct all personal securities transactions in a manner consistent with the written and acknowledged Code of Ethics, and are to avoid any and all actual or potential conflicts of interest. No Meritage associate is to take inappropriate advantage of their position or of the information concerning the identity of current, past or prospective security holdings.

The Code of Ethics, as well as the Meritage Pay to Play Policy, include policies regarding political and charitable contributions. All associates are prohibited from making political contributions for the purpose of obtaining or retaining advisory contracts with state and local government entities. In addition, all associates of Meritage are prohibited from considering the current or anticipated business relationships as a factor in soliciting political or charitable donations.

All associates of Meritage are prohibited from receipt of any gift, service, or entertainment of more than a de minimis value from any person or entity that does business with or on behalf of Meritage. No associate may give or accept cash gifts or cash equivalents to or from a client, prospective client, or any entity that does business with or on behalf of Meritage.



Meritage will provide a copy of the full text of the Code of Ethics to any client or prospective client upon request, without charge.

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**Participation or Interest in Client Transactions**

Meritage and its associates may buy or sell securities that are also held by clients. The Code of Ethics stipulates requirements for pre-clearance of trading activity for any transaction with potential personal benefit of any Meritage associate in reportable securities, including all publicly traded common stocks, corporate bonds, certain futures and investment contracts. Employees may not trade their own securities ahead of client trades. Regular reporting of all actual and family holdings by all associates is required annually and reviewed by the Meritage compliance officer. Monthly reporting of all investment transactions is required of all associates and their family member accounts by the Code of Ethics.

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**Personal Trading**

All Meritage associates are required to report monthly for personal trading reviews to ensure that the personal trading of employees does not affect the markets, have been pre-cleared when required, and that clients of the firm always receive preferential treatment. Employee trades are generally small in size and do not affect the securities markets.

A number of Meritage associates have personal accounts which are invested in Common Trust Funds sponsored by Midwest Trust Company. Meritage is the subadvisor to these funds, which are managed identically to all other client accounts in each of the three equity strategies and a tax-exempt bond strategy. In addition, Meritage is the subadvisor to three collective funds sponsored by Benefit Trust Company which are investment options to Meritage associates for the firm's 401(k) Profit Sharing Plan. These collective funds, using our Value and Growth equity strategies and our taxable fixed income strategy, are also managed identically to all other client accounts using the same strategies and securities.

## **Brokerage Practices**

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**Selecting Brokerage Firms**

Meritage will ordinarily have discretion in all of its client portfolios as to the securities purchased and sold, and in the selection of brokers affecting the transactions. However, Meritage has and will continue to enter into investment advisory agreements with certain clients who have directed in writing that a particular broker be used to execute trades.

Clients may suffer potential drawback when they direct their brokerage to specific broker dealers other than those recommended by Meritage. Such drawbacks include the potential inability to negotiate commission rates,

inability to obtain volume discounts, or best execution for client directed accounts in some transactions.

It is Meritage's policy to select brokers for the execution of securities transactions on a best price for the best execution basis. Said another way, trades are executed in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances at the time. Meritage will consider the full range and quality of a broker's services in making that determination. Some of the considerations include the value of research provided, if any, execution capability of the brokerage house, financial responsibility of the brokerage and responsiveness of the broker to Meritage.

Specific custodian recommendations are made to clients based on the client's level of assets and the need for personalized trust or custody services. Meritage will recommend custodians based on the quality, integrity and financial responsibility of the firm. Meritage is not compensated in any way for any custody recommendation.

Meritage may recommend that clients establish brokerage/custody accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab). Schwab is a registered broker-dealer and will maintain custody of client assets as well as effect trades for the accounts. Meritage is independently owned and operated and not affiliated with Schwab. Schwab provides Meritage clients with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. For Meritage clients' accounts maintained in its custody, Schwab generally does not charge separately for custody, but is compensated by account holders through commission or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Meritage is a preferred provider in the Schwab Advisor Network. Meritage does pay to Schwab either a percentage of the assets under management in referred accounts or a percentage of investment management fees collected on referred accounts to Meritage through the Schwab Advisor Network. The referral fees paid by Meritage to Schwab do not have any impact on the management fees paid by those referred clients to Meritage. Said another way, Schwab-referred clients have the same total management fee structure with Meritage as a non-Schwab-referred client.

Meritage does not have any affiliation with any product sales firms, nor does it receive any commissions from any of product sale arrangements.

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**Best Execution**

Meritage regularly reviews the execution of trades at each broker-dealer and custodian. Best execution does not necessarily mean that the trade was executed at the lowest possible commission rate or received the best possible pricing.

The Meritage Investment Team has developed a list of broker-dealers that it regularly reviews with a list of criteria when assessing the quality of the relationship. Such criteria include:

- Commission rates charged by the broker in comparison to charges of other brokers for similar transactions.
- Direct access to the broker's trading desk and the familiarity of the broker contact with Meritage's business and interests.
- The broker's electronic trading capabilities, including the depth and sophistication of electronic, rules-based trading and other tools.
- The ability of the broker to maintain confidentiality while executing trades to prevent disclosure of Meritage's investment strategy or the details of an order in a way that could adversely affect the market price.
- The broker's ability to execute the trade accurately, with speed and ability to obtain the best price.
- The broker's administrative abilities, including efficiency in settling the trades and proper correction of any trade errors.
- The broker's research capabilities and ability to provide market information.
- The financial stability of the broker.

The Meritage Investment Team negotiates with its list of brokers regarding commission structures and reviews those relationships annually.

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### **Soft Dollars**

Meritage maintains agreements and understandings with a number of broker-dealers to which brokerage transactions are directed for research services provided. The Meritage investment process is reliant in large part on the receipt of financial fundamental and technical data for fixed income obligations and for all equity strategies, benefiting all accounts. Soft dollar benefits are not limited to those clients who may have generated a particular benefit. Soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.

The Meritage investment team will project the amount of commission dollars expected to be generated in the course of a fiscal year. Through allocation procedures, which includes the consideration as to the quality and quantity of research and investment information received, the investment team will establish a budget of commission dollars to be directed to specific broker-dealers providing what is determined to be the best services available. A substantial portion of brokerage commissions are paid to broker-dealers who supply such information and services.

The use of soft dollar arrangements can create an inherent conflict of interest in the use of client commissions over and above the cost of execution. To address this conflict of interest, Meritage's investment team monitors best execution activity and makes a good faith determination of the value of the research product or services in relation to the commissions paid.

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**Order Aggregation**

Meritage may aggregate purchase or sale orders for securities for a client account with the purchase or sale orders for the same security for other clients' accounts where such pooling is likely to result in a more favorable net result for clients. However, Meritage is not obligated to aggregate orders.

Circumstances may arise under which Meritage determines that there are a limited number of shares available for a security. When that happens, Meritage attempts to allocate the opportunity to purchase or sell that security among those accounts on an equitable basis, but cannot assure the equality of treatment among all clients in connection with every trade.

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**Trade Errors**

While Meritage strives to minimize trading errors, such errors may occasionally occur and are identified and corrected as promptly as possible. As a general rule, when an error occurs, Meritage seeks to place a client's account in the same position as it would have been had there been no error.

## **Review of Accounts**

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**Periodic Reviews**

Each portfolio is assigned to a primary portfolio manager. The primary manager is responsible for the day-to-day supervision of that account. A secondary portfolio manager is assigned in order to provide back-up in case the primary portfolio manager is unavailable. The Meritage Investment Management Team, which includes portfolio management professionals and owners, also functions as back-up review for the portfolios.

The portfolio management accounting system used by Meritage has tools that are used and reviewed regularly that help the portfolio managers see that the portfolios stay within the client guidelines. Further, client guidelines are reviewed with the client at each meeting and as necessary on an interim basis if significant events occur, whether in the markets or with the client's personal situation.

When there is significant cash inflow or outflow in a new or currently managed account, the account is moved to the supervision of a transition team for special handling until the account can be brought in line with the specific equity strategy. Depending on agreement from the client and the changes

required, it may take a few weeks or even months to get an account into the strategy's regular flow of activity.

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### **Regular Reports**

Clients receive quarterly written reports on all accounts. Each client will receive a portfolio summary, a detailed investment holdings reports as well as a detailed transaction report. The process also includes data regarding the quarterly performance on the account alongside the appropriate benchmark applicable for the investment strategy. A market and economic commentary is also a part of our quarterly communications package. Quarterly reporting packages can be delivered securely via the internet or with a paper copy in the mail per the client's direction.

Face-to-face meetings with the client and the primary portfolio manager are encouraged at least annually, but can be held as often as the client chooses. As market or tax policy conditions warrant, we will also communicate with clients verbally or in writing regarding investment strategy.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

Meritage has been fortunate to receive many client referrals from existing clients over the years. Other referrals come from estate planning attorneys, accountants, our associates, personal friends of associates and other similar sources. The firm does not compensate any of these referring parties for referrals.

Meritage has solicitation agreements in place with several third-party consultants and will pay a percentage of related management fees to organizations and individuals outside of the employment of Meritage for referrals of new business clients. These payments are an expense of Meritage and do not affect the fee paid by the client for advisory services. Marketing solicitation is done on a fully disclosed basis in accordance with guidelines and regulations of the SEC. Clients are asked to acknowledge receipt of the solicitor's disclosure document as well as part 2 of Form ADV from Meritage prior to or at the time of entering into any advisory contract.

Meritage also receives referrals from Charles Schwab & Co. resulting from Meritage being a part of the Schwab Advisor Network. Meritage does compensate Schwab for these referrals with either a percentage fee of the assets under management or a percentage of the management fee billed and those fees are acknowledged by the referred client. The payments by Meritage to Schwab do not affect the fee paid by the client for advisory services.

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**Referrals Out**

Meritage does not accept referral fees or any form of remuneration from other professionals, such as attorneys and accountants, when a prospect or client is referred to them by a Meritage associate.

## **Custody**

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**Account Statements**

Meritage has technical custody under SEC regulations solely due to the fact that we are authorized to deduct fees from many client custodial accounts. However, Meritage is not required to undergo an annual surprise examination because all client assets are held by qualified, independent custodians that also deliver quarterly statements directly to our clients.

All clients should receive at least quarterly statements from the broker-dealer, bank, trust company, or other qualified custodian that holds and maintains clients' investment assets. Meritage urges you to carefully review such statements and compare these records to the account statements that Meritage provides.

Meritage statements may vary from the custodial records because of procedures regarding trade date of a security as compared to settlement date, report date, or valuation methods of certain securities. The treatment of accrued income can also result in differences between the custodian's statements and Meritage's statements.

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## **Investment Discretion**

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**Discretionary Authority for Trading**

Meritage accepts discretionary authority to manage securities accounts on behalf of its clients. Meritage has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. Discretionary trading authority allows for the efficient placing of trades in client accounts on the clients' behalf so that Meritage may promptly implement the investment policy that the client has approved in writing and documented in the account investment guidelines. Certain clients have put restrictions on their accounts, such as excluding a particular class of securities, retaining a particular security and/or tax considerations. In accounts with such restrictions, performance may be dissimilar to performance of Meritage composite performance. Investment restrictions or limitations by a client should be provided to Meritage in writing.

## Voting Client Securities

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### Proxy Votes

Unless the client designates otherwise, Meritage votes proxies for securities over which it maintains discretionary authority, consistent with its proxy voting policy. A copy of Meritage's proxy voting policy is available upon request. Because Meritage votes and oversees a large number of proxies, we engage Broadridge Investor Communication Solutions, Inc. as a service provider and voting delegate to assist with the administrative functions and mechanics of voting proxies.

Because corporate governance and shareholder proposals can directly affect shareholder values, proxies are voted in the best interests of our clients. This is often in accordance with recommendations by the management of the companies we are investing in, but can be different if a proxy item is deemed to be detrimental to the client's interest. Clients may request information about specific voting of securities by contacting their primary portfolio manager.

Clients may choose to vote their own proxies for all holdings or for specific holdings by letting Meritage know in writing. We will work with the custodian to ensure the account is handled outside of our normal proxy procedures in those cases.

## Financial Information

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### Financial Condition

Registered investment advisers are required to provide certain financial information or disclosures about the adviser's financial condition. Meritage has no financial commitments that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of any bankruptcy proceedings.

A balance sheet is not required to be provided because Meritage does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

## Business Continuity Plan

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Meritage has a Business Continuity Plan in place that provides detailed steps to lessen the severity and to quickly recover from the loss of office space, communications, services or key people.

The Business Continuity Plan covers potential problems resulting from natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan also covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, chemical or biological events, T-1 communications line outage, and Internet outage. Meritage schedules regular testing of these procedures to ensure a smooth implementation of the plan. All electronic files are backed up daily and archived offsite.

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location. Such information will also be made immediately available on our website, [www.meritageportfolio.com](http://www.meritageportfolio.com).

Because Meritage uses a team structure for support of the investment process and has a primary and secondary portfolio manager assigned to each account, we believe we have sufficiently protected the long term continuation of management in the event of a principal's disability or death. Meritage personnel also have done extensive cross-training of trading and operational procedures and positions within the firm to ensure smooth, continuous operations in the event of a loss of an associate.





**Firm Brochure Supplement**  
(Part 2B of Form ADV)

**MERITAGE PORTFOLIO MANAGEMENT, INC.**

**7500 College Blvd. Suite 1212**

**Overland Park, KS 66210**

**913-345-7000**

**913-345-2213 (fax)**

**[www.meritageportfolio.com](http://www.meritageportfolio.com)**

This brochure supplement provides information about the following associates which supplements the Meritage brochure. You should have received a copy of that brochure. Please contact Deborah Eveans, Chief Compliance Officer, if you did not receive Meritage's brochure or if you have any questions about the contents of this supplement.

Mark E. Eveans  
James M. Klein  
Leonard C. Mitchell  
Sharon L. Divine  
Clinton W. Anderson  
Linda K. Gocken  
Corey J. Saathoff  
Diarmuid F. Boran

**MARCH 30, 2012**

## Brochure Supplement (Part 2B of Form ADV)

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### **Education and Business Standards**

It is the policy of Meritage to employ those people who have distinguished themselves in academic work, as well as previous related industry experience. We subscribe to the ethical standards as set forth by the Institute of Chartered Financial Analysts. It is Meritage's policy to encourage participation in such professional organizations as the CFA Institute and the attendance of seminars for the advancement of knowledge and skills.

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### **Professional Certifications**

Employees have earned certifications and credentials that are required to be explained in further detail.

Chartered Financial Analyst (CFA): Chartered Financial Analysts are licensed by the CFA Institute to use the CFA mark. CFA certification requirements:

- Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- Successful completion of three sequential, six-hour exam levels of the CFA Program over two to four years. The three levels of the CFA program test a wide range of investment topics, including ethical and professional standards, fixed-income analysis, alternative and derivative investments, and portfolio management and wealth planning.
- Have 4 years of acceptable professional work experience in the investment decision-making process.
- Agree to adhere to and sign the Member's Agreement, a Professional Conduct Statement, and any additional documentation requested by CFA Institute.

Chartered Investment Counselor (CIC): The Chartered Investment Counselor (CIC) charter is a professional designation established in 1975 and awarded by the Investment Adviser Associations (IAA). The Charter was designed to recognize the special qualifications of persons employed by IAA member firms whose primary duties involve investment counseling and portfolio management. CIC requirements:

- Employed by a member firm of the IAA in an eligible occupational position for at least 1 year.
- A minimum of 5 cumulative years work experience in one or more eligible occupational positions.
- Complete the CFA exams and hold the CFA certificate.

- Endorse the IAA's Standards for Practice and provide professional ethical information.

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**MARK EVERETT EVEANS, CFA, CIC****Educational Background:**

- Date of birth: March 3, 1945
- Bachelor of Business Administration, Finance – Wichita State University, 1968.
- Master of Science, Finance – Wichita State University, 1970.

**Business Experience:**

President, Director and Chief Investment Officer, Meritage Portfolio Management, Inc., July 1991 to Present.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Mark Eveans.

**Other Business Activities: None****Additional Compensation:**

Mark Eveans is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on his individual contribution to the success of the firm. Mr. Eveans is not compensated via commissions on any new or existing clients or on any type of trading activity.

**Supervision:**

Mark Eveans is a member of the Meritage Investment Team and his activities and investment decisions are subject to review by that Team. Mr. Eveans' activities are also monitored by his fellow associates through daily Investment Team meetings and through our email archiving system and our client data base. The client data base is used to capture and save client relationship interaction and information. A secondary portfolio manager is assigned to Mr. Eveans' accounts to review and acknowledge all regular client communications and to also sit in on client meetings when appropriate.

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**JAMES MILGRAM KLEIN, CFA, CIC****Educational Background:**

- Date of birth: August 30, 1956
- Bachelor of Science, Economics – University of Pennsylvania – Wharton School, 1978.

- Master of Business Administration, Finance – University of Chicago, 1980.

**Business Experience:**

Director, Principal and Senior Portfolio Manager, Meritage Portfolio Management, Inc., July 1991 to Present.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for James Klein.

**Other Business Activities:** None

**Additional Compensation:**

James Klein is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on his individual contribution to the success of the firm. Mr. Klein is not compensated via commissions on any new or existing clients or on any type of trading activity.

**Supervision:**

James Klein is a member of the Meritage Investment Team and his activities and investment decisions are subject to review by that Team. Mr. Klein's activities are also monitored by his fellow associates through daily Investment Team meetings and through our email archiving system and our client data base. The client data base is used to capture and save client relationship interaction and information. A secondary portfolio manager is assigned to Mr. Klein's accounts to review and acknowledge all regular client communications and to also sit in on client meetings when appropriate.

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**LEONARD CURTIS MITCHELL, CFA**

**Educational Background:**

- Date of birth: July 20, 1953
- Bachelor of Business Administration, Accounting – Texas Christian University, 1975.
- Master of Business Administration, Finance – Texas Christian University, 1978.

**Business Experience:**

Principal and Senior Portfolio Manager, Meritage Portfolio Management, Inc., July 1998 to Present.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Leonard Mitchell.

Other Business Activities: None

Additional Compensation:

Leonard Mitchell is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on his individual contribution to the success of the firm. Mr. Mitchell is not compensated via commissions on any new or existing clients or on any type of trading activity.

Supervision:

Leonard Mitchell is a member of the Meritage Investment Team and his activities and investment decisions are subject to review by that Team. Mr. Mitchell's activities are also monitored by his fellow associates through daily Investment Team meetings and through our email archiving system and our client data base. The client data base is used to capture and save client relationship interaction and information. A secondary portfolio manager is assigned to Mr. Mitchell's accounts to review and acknowledge all regular client communications and to also sit in on client meetings when appropriate.

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## **SHARON LEE DIVINE, CFA**

Educational Background:

- Date of birth: June 9, 1960
- Bachelor of Business Administration, Computer Based Information Systems – University of Missouri-Kansas City, 1988.
- Master of Business Administration, Finance – University of Missouri-Kansas City, 1989.

Business Experience:

Principal and Senior Portfolio Manager, Meritage Portfolio Management, Inc., November 1993 to Present.

Disciplinary Information:

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Sharon Divine.

Other Business Activities: None

Additional Compensation:

Sharon Divine is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on

her individual contribution to the success of the firm. Ms. Divine is not compensated via commissions on any new or existing clients or on any type of trading activity.

**Supervision:**

Sharon Divine is a member of the Meritage Investment Team and her activities and investment decisions are subject to review by that Team. Ms. Divine's activities are also monitored by her fellow associates through daily Investment Team meetings and through our email archiving system and our client data base. The client data base is used to capture and save client relationship interaction and information. A secondary portfolio manager is assigned to Ms. Divine's accounts to review and acknowledge all regular client communications and to also sit in on client meetings when appropriate.

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**CLINTON WADE ANDERSON, CFA**

**Educational Background:**

- Date of birth: June 24, 1976
- Bachelor of Business Administration, Finance – University of Iowa, 1998.

**Business Experience:**

Investment Analyst and Associate Portfolio Manager, Meritage Portfolio Management, Inc., January 2006 to Present.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Clinton Anderson.

**Other Business Activities: None**

**Additional Compensation:**

Clinton Anderson is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on his individual contribution to the success of the firm. Mr. Anderson is not compensated via commissions on any new or existing clients or on any type of trading activity.

**Supervision:**

Clinton Anderson is a member of the Meritage Investment Team and his activities and investment decisions are subject to review by that team and further supervised by Mark E. Eveans, President and Chief Investment Officer. Mr. Eveans, can be contacted via phone at 913-345-7000 or via email at [meveans@meritageportfolio.com](mailto:meveans@meritageportfolio.com).

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**LINDA KAY GOCKEN, CFA****Educational Background:**

- Date of birth: April 8, 1961
- Bachelor of Science in Business Administration, Finance – University of Nebraska-Lincoln, 1983.

**Business Experience:**

- Director of Client Relations, Meritage Portfolio Management, Inc., December 2009 to Present.
- Consultant, Director of Trust Investments – Wealth Management & Trust Services, Citizens Bank & Trust, Kansas City, MO, January 2008 – August 2008.
- Senior Financial Analyst – Cambridge Advisors, Inc., Omaha, NE, November 2000 – July 2007.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Linda Gocken.

Other Business Activities: None

**Additional Compensation:**

Linda Gocken is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on her individual contribution to the success of the firm. Ms. Gocken is not compensated via commissions on any new or existing clients or on any type of trading activity.

**Supervision:**

Linda Gocken is supervised by Mark Eveans, President and Chief Investment Officer. He reviews Linda Gocken's work through office interactions as well as monitoring of email and client interactions as documented in the client data base. Mr. Eveans, President and Chief Investment Officer can be contacted via phone at 913-345-7000 or via email at [meveans@meritageportfolio.com](mailto:meveans@meritageportfolio.com).

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**COREY JOHN SAATHOFF****Educational Background:**

- Date of birth: April 15, 1971
- Bachelor of Science, Electrical Engineering – Kansas State University, 1994.
- Master of Business Administration, Finance – Kansas State University, 1996.

**Business Experience:**

Trader and Portfolio Analyst, Meritage Portfolio Management, Inc., June 1996 to Present.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Corey Saathoff.

**Other Business Activities: None**

**Additional Compensation:**

Corey Saathoff is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on his individual contribution to the success of the firm. Mr. Saathoff is not compensated via commissions on any new or existing clients or on any type of trading activity.

**Supervision:**

Corey Saathoff is a member of the Meritage Investment Team and his activities in executing the trading activities and investment decisions are subject to review by that team and further supervised by Mark E. Eveans, President and Chief Investment Officer. Mr. Eveans can be contacted via phone at 913-345-7000 or via email at meveans@meritageportfolio.com.

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**DIARMUID FINBARR BORAN**

**Educational Background:**

- Date of birth: July 17, 1959
- Bachelor of Science, Pharmacy – University of Michigan, 1983.
- Master of Business Administration – University of Michigan, 1988.

**Business Experience:**

Director of Business Development, Meritage Portfolio Management, Inc., January 2012 to Present.

Chief Operating Officer, Brandmeyer Enterprises, May, 2008 - October, 2011

Vice President of Corporate Development, Enturia, Inc., October, 2006 - May, 2008.

**Disciplinary Information:**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item for Diarmuid Boran.



Other Business Activities: None

Additional Compensation:

Diarmuid Boran is a salaried associate of Meritage and is eligible for bonus compensation based on the overall profitability of the firm and on his individual contribution to the success of the firm. Mr. Boran is also compensated by Meritage on new revenues generated by his efforts in obtaining new clients, but is not compensated on any type of trading activity.

Supervision:

Diarmuid Boran is supervised by Mark Eveans, President and Chief Investment Officer. He reviews Diarmuid Boran's work through office interactions as well as monitoring of email and client interactions as documented in the client data base. Mr. Eveans can be contacted via phone at 913-345-7000 or via email at [meveans@meritageportfolio.com](mailto:meveans@meritageportfolio.com).