

# Cutler Capital Management, LLC

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*This disclosure brochure provides clients with information about the qualifications and business practices of Cutler Capital Management, LLC, an independent investment advisory firm registered with the United States Securities and Exchange Commission ("SEC"). It also describes the services Cutler Capital Management, LLC provides as well as background information on those individuals who provide investment advisory services on behalf of Cutler Capital Management, LLC. Please contact David Grenier, President and Chief Compliance Officer of Cutler Capital Management, LLC, at 508-757-4455 if you have any questions about the contents of this disclosure brochure.*

*The information in this disclosure brochure has not been approved or verified by the SEC or by any state securities authority. Registration with the SEC does not imply that Cutler Capital Management, LLC or any individual providing investment advisory services on behalf of Cutler Capital Management, LLC possess a certain level of skill or training. Additional information about Cutler Capital Management, LLC is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Cutler Capital Management, LLC is 107463.*



## **MATERIAL CHANGES**

The following material changes have occurred since March 21, 2011, the date when Cutler Capital Management, LLC last updated its Form ADV Part 2A disclosure statement that we provide to our clients:

### **Private Investment Funds**

Cutler Capital Management, LLC is general partner and serves as investment manager of multiple private investment funds organized as pooled investment vehicles (commonly referred to as “hedge funds”).

During the past year, Cutler Capital Management closed down one hedge fund and opened up another hedge fund to new investment.

The Cutler Absolute Return Fund, L.P. was shut down and is no longer offered by Cutler Capital Management, LLC as an investment option for either existing or prospective clients.

The Cutler Investment Grade Convertible Fund, LP. was started by Cutler Capital Management, LLC and is currently being offered to institutional investors. For more information on the fees and investment strategies of the Cutler Investment Grade Convertible Fund, LP, please see the detailed disclosures on pages 7 and 11, respectively, of this disclosure brochure.

### **Investment Team**

Cutler Capital Management, LLC is pleased to announce that Paul V. Bucci and Robert E. Butman have joined the company as Managing Directors, Portfolio Managers of the Cutler Investment Grade Convertible Fund, LP and members of our Investment Team. Further information about Messrs. Bucci and Butman can be found in the section entitled “Investment Team” starting on page 2 of this disclosure brochure.

Arthur Raskin, the former portfolio manager of the Cutler Absolute Return Fund, L.P., is no longer affiliated with Cutler Capital Management, LLC.



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CUTLER CAPITAL MANAGEMENT, LLC

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## ADVISORY BUSINESS

### Company

Cutler Capital Management, LLC is a privately-held Massachusetts limited liability company that has been providing investment advisory services since 2003 and has been registered with the SEC since 2000. Throughout this written disclosure brochure, the company is referred to as “Cutler”.

The principal owners of Cutler are Melvin S. Cutler and David N. Grenier.

### Services

Cutler provides discretionary investment management services to both individually managed accounts (“Individually Managed Accounts”) and to private investment funds organized as pooled investment vehicles (“Private Investment Funds”).

### Types of Investments

Cutler specializes in convertible securities. Convertible securities, which are commonly known as “convertibles”, are securities that can be converted into another security typically common stock. Convertibles are hybrid securities; in other words, they combine the characteristics of two different types of investment instruments. Convertibles are found in two basic forms: convertible bonds and convertible preferred stock. These convertible bonds and convertible preferred stock can be exchanged for (or, *converted to*) a specified number of the issuing company's common stock shares at the option of the convertible holder.

Cutler typically invests in convertibles issued as bonds or preferred securities that can be converted to stocks. Both provide a stream of income, like bonds, but also have the potential for growth, like stocks, based on the performance of their underlying stocks.

The portfolios of Individually Managed Accounts and Private Investment Funds are primarily invested in convertibles, though the portfolios will be supplemented by investments in real estate investment trusts (REITs) and dividend-paying stocks.

### Individually Managed Accounts

Individually Managed Accounts will be designed, based on the client’s financial goals, tolerance for risk and investing timeline. Cutler uses the following approach to build and manage portfolios for Individually Managed Account clients:

- Build positions with convertibles offering reliable current income, growth potential and attractive downside risk characteristics.
- Allocate 70% to 85% of the portfolio to convertible securities and 15% to 30% to REITs and dividend-paying stocks.
- Diversify 10 to 30 holdings across industry sectors and market



capitalizations.

- Limit exposure to any single company to less than 15% of the portfolio.

Individually Managed Account clients may impose restrictions on investments in certain securities or types of securities

### Private Investment Funds

*Important Note: Private Investment Funds advised by Cutler are not offered or sold to the public. They are accessible only to investors who are considered "qualified clients" within the meaning of Rule 205-3 under the Investment Advisers Act of 1940, as amended, who receive a confidential private placement memorandum issued by the fund and who ultimately become parties to the operating agreement governing operation of the fund.*

Investments in the Private Investment Funds are made in accordance with the offering documents of the individual fund. The terms and conditions for participation in any such private fund, including management and incentive fees, conflicts of interest and risk factors, are set forth in each Private Investment Fund's offering documents, which each prospective investor shall receive, and be required to complete and submit certain portions to Cutler in order to demonstrate qualification for investment in the Private Investment Fund.

At present, Cutler acts as general partner and investment manager of the following Private Investment Funds: the Cutler Investment Fund, L.P.; the Cutler Income & Growth Fund I, L.P.; and the Cutler Investment Grade Convertible Fund, LP. Please see the "Investment Strategies" section of on page 10 this disclosure brochure for additional information regarding the investment objectives, types of investments and risk exposures of each Private Investment Fund managed by Cutler.

Because of the "pooled" nature of the Private Investment Funds managed by Cutler, clients may not impose restrictions on investments in certain securities or types of securities.

### **Investment Team**

Melvin S. Cutler

*Chief Investment Officer*

Mr. Cutler is Chief Investment Officer and is also a Portfolio Manager for the Cutler Investment Fund, L.P., Cutler Income & Growth Fund, L.P. and Individually Managed Accounts.

Mr. Cutler has researched and invested in convertible securities and other income producing securities since 1975. He registered as an investment adviser with the Securities & Exchange Commission in 1986 and incorporated his registration into Cutler, Wentzell & Moynihan (CWM) a wealth advisory firm in 2000. CWM was converted into Cutler Capital Management, LLC in 2003 to focus specifically on



managing convertible security oriented investment portfolios for high net worth individuals and institutional clients. Mr. Cutler also founded Flagship Bank & Trust, Worcester, MA and Madison Banc Shares (NASDAQ: MDBS), in Palm Harbor, FL. Both banks were sold to publicly owned bank holding companies - Chittenden NA Bank and Whitney NA bank, respectively.

Mr. Cutler is a graduate of the City College of New York

David N. Grenier

*President and Managing Member*

Mr. Grenier is Cutler Capital's Managing Member, President, and is also a Portfolio Manager for the Cutler Investment Fund, L.P., Cutler Income & Growth Fund, L.P., Cutler Investment Grade Convertible Fund, LP and Individually Managed Accounts.

Mr. Grenier joined Mr. Cutler in June 2003. He managed the conversion of Cutler, Wentzell & Moynihan into Cutler Capital Management, LLC and played an integral role in the launch of Cutler's first convertible hedge fund early in 2004. Mr. Grenier has 17 years of banking experience, including 12 years at Fleet Boston Financial. At Fleet's Private Clients Group he led a team of investment and estate planning professionals responsible for managing \$2 billion in assets for high net worth individuals and institutions. Prior to the Private Clients Group, Mr. Grenier worked within Fleet's Corporate Lending and Managed Asset Divisions where he developed company valuation and debt underwriting skills in connection with Fleet's extension and restructuring of loans. Mr. Grenier applied these skills within airline, manufacturing, utility, high-technology and real estate industries and they are essential to managing and evaluating Cutler's current and prospective investments.

Mr. Grenier is a graduate of Amherst College and serves on the investment committee of the Health Foundation of Central Massachusetts, Inc. and Board of Directors of Spectrum Health Systems, Inc.

Paul V. Bucci

*Managing Director*

Mr. Bucci is Portfolio Manager for the Cutler Investment Grade Convertible Fund, LP and Individually Managed Accounts.

From 2009 to 2011, Mr. Bucci was Member and Chief Investment Officer of Second Moment Capital Management, LLC. Prior to that, Mr. Bucci was a Principal and Senior Convertible Portfolio Manager for TQA Investors, LLC, from 1996 to 2007, when TQA was acquired by Context Capital Management LLC. He continued in this role with Context Capital until 2009. Mr. Bucci was responsible for managing TQA's hedged and long only convertible funds and specialized in analyzing global convertible securities. He developed the firm's proprietary trading systems with a particular focus on gamma trading to monetize intraday volatility. From 1994 to 1995, Mr. Bucci was at Templeton Quantitative Advisors, Inc. as a Vice President responsible for portfolio management and trading of the firm's hedged equity products. Mr. Bucci was formerly an Analyst/Trader with the Quantitative Equity



Group at Harvard Management Company in Boston from 1992 to 1994 where he was involved with managing quantitatively structured portfolios. In 1985, Mr. Bucci joined the Putman Company where he completed a management training program.

Mr. Bucci obtained a B.A. in Organic Chemistry from Middlebury College in 1985 and an M.B.A. in Finance from Northeastern University in 1991.

Robert E. Butman, CFA

*Managing Director*

Mr. Butman is Portfolio Manager for the Cutler Investment Grade Convertible Fund, LP and Individually Managed Accounts.

From 2009 to 2011, Mr. Butman was Managing Member and President of Second Moment Capital Management, LLC ("Second Moment"). Prior to that, from 1996, Mr. Butman was President and Chief Executive Officer of TQA Investors, LLC until August 2007, when he sold the firm to Context Capital Management LLC. Mr. Butman's responsibilities included overseeing all investment management and research activities at TQA. TQA was created in 1996 after a spin-off from the Franklin Resources mutual fund organization. From 1992 to 1995 Mr. Butman was President, Chief Executive Officer, and Director of Templeton Quantitative Advisors, a wholly-owned subsidiary of Templeton Worldwide, Inc. Prior to joining Templeton in 1990, Mr. Butman was a First Vice President (1985-1989) and the Director of Quantitative Equity Research (1990) at Drexel Burnham Lambert and President of The DAIS Group, a quantitative research organization formed by ex-Drexel employees upon the bankruptcy of Drexel in 1990. Mr. Butman started his career as a systems analyst with IBM (1977-1980).

Mr. Butman obtained a B.S. in Management Science from the University of Maryland in 1977 and an M.B.A. in Finance from the Wharton School at the University of Pennsylvania in 1982. He is an active member in a number of industry organizations, including serving on the Board of Directors of The Institute of Quantitative Research in Finance (Q-Group). He is also a member of the Institute of Chartered Financial Analysts and Stamford Society of Security Analysts.

Geoffrey Dancey, CFA

*Portfolio Manager, Securities Analyst and Trader*

Mr. Dancey is a Portfolio Manager for the Cutler Investment Fund, L.P. and Individually Managed Accounts.

Mr. Dancey has been a Securities Analyst and Trader with Cutler since 2002. He is experienced trading over-the-counter convertible bonds and preferred securities; exchange-traded convertible preferred securities; and, executing option pairs and program trades for Cutler. Mr. Dancey cultivates and maintains important relationships with approximately 24 convertible dealers. Mr. Dancey is also an experienced Security Analyst, performing fundamental equity research and convertible security analysis. This research is the foundation for the firm's investment decisions.



Mr. Dancey is a graduate of Clark University MBA program.

### **Assets Under Management**

As of March 1, 2012, the total amount of assets managed by Cutler is approximately \$260,000,000. All client assets are managed on a discretionary basis.

## **FEES AND COMPENSATION**

### **Individually Managed Accounts**

The type of fee charged for Individually Managed Accounts is determined by whether or not the beneficiary of the Individually Managed Account is a “Qualified Client.” As defined in Rule 205-3 under the Investment Adviser Act of 1940, as amended, a “Qualified Client” is an individual or company that immediately after entering into an investment contract has at least \$1,000,000 under management with the advisory firm or an individual or a company with a net worth (or a joint net worth, in the case of an individual, with assets held jointly with a spouse) of more than \$2,000,000 immediately before entering into the investment contract. The term “net worth” means the fair market value of total assets, including investments, homes, home furnishings and automobiles, minus total liabilities.

#### Qualified Clients

For those Individually Managed Accounts held by clients that are Qualified Clients, the annual fee will be charged in either one of two ways:

**MANAGEMENT FEE:** A minimum annual management fee equal to the greater of \$3,000 or ½% of the account’s value. The management fee is payable quarterly in arrears (at the rate of the greater of \$750 or 1/8% per quarter) based on the account’s end-of-quarter market value; or

**PERFORMANCE FEE:** An annual performance fee equal to 11% of the increase in the account’s net market value (before the payment of any minimum management fees) calculated at calendar year end or, in the event the Investment Management Agreement is terminated by either party during a calendar year, as of the date of termination. The increase in net market value includes realized and unrealized gains/losses and interest and dividend income.

#### Non-Qualified Clients

For those Individually Managed Accounts held by clients that are not Qualified Clients, the annual fee will be charged as a minimum annual management fee equal to the greater of \$3,000 or ½% of the account’s value. The management fee is payable quarterly in arrears (at the rate of the greater of \$750 or 1/8% per quarter) based on the account’s end-of-quarter market value.



### Payment of Individually Managed Account Fees

At the end of every fee period, an Individually Managed Account client pays Cutler the applicable fee for that period upon the client's receipt of Cutler's bill. At the election of Cutler, the fee may be paid in whole or in part by Cutler's withdrawal of such amount directly from the client's account, with any balance billed by Cutler to the client and payable upon receipt of such billing. Clients are required to authorize each custodian for their accounts to honor Cutler's written request for such direct fee payments, a copy of which written request will be sent by Cutler to the client. Clients can choose to be billed rather than have fees deducted.

### Modification to Fee Calculation for Individually Managed Accounts

If the first and/or the last fee period that an Individually Managed Account agreement is in effect is less than a full period (e.g. three calendar months in the case of a quarterly fee), the fee for such period will be calculated as of the last day of such period on which the agreement was in effect and prorated by the number of days during the period that the agreement was in effect.

In the case of any fee based upon the value of an Individually Managed Account, in any period during which there was an interim deposit and/or withdrawal (other than withdrawal to pay management fee) by the client to or from the account, the fee schedule shall be applied to the average of the account values determined as of the close of business on the last business day of each month ending during such period.

### **Private Investment Funds**

Private Investment Funds for which Cutler acts as general partner are charged an annual fee as follows:

#### Cutler Investment Fund, L.P.

Investors in the Cutler Investment Fund, L.P. are charged an annual fee in either one of two ways:

**MANAGEMENT FEE:** As a quarterly management fee, payable in arrears, equal to 0.125% of the end-of-quarter net asset value of the investor's capital account, which, on an annualized basis, equals 0.50% of the average end-of-quarter net asset value of the investor's capital account for the annual reporting period; or

**PERFORMANCE ALLOCATION:** As an annual incentive performance allocation equal to 11% of the increase in the net market value of the investor's capital account at the end of the calendar year, with adjustments for deposits, withdrawals and trading costs paid during the year. The increase in net asset value used to calculate the allocation includes realized and unrealized gains or losses, and interest and dividend income.



### Cutler Income & Growth Fund I, L.P.

Investors in Cutler Income & Growth Fund, L.P. are charged a quarterly management fee, in arrears, equal to 0.238% of the end-of-quarter net asset value of each investor's capital account, which, on an annualized basis, equals 0.95% of the average end-of-quarter net asset value of the investor's capital account for the annual reporting period.

### Cutler Investment Grade Convertible Fund, LP

Investors in Cutler Investment Grade Convertible Fund, LP are charged a monthly management fee, in arrears, equal to .0833% of the end-of-month net asset value of the fund, which, on an annualized basis, equals 1.00% of the average end-of-month net asset value of the fund for the annual reporting period.

## **Important Additional Fee Information**

### Fees Negotiable

Cutler, in its sole discretion, may waive the minimum fee requirement. All fees are negotiable.

### Management Fee or Performance Fee

For any calendar year, Clients pay either the management fee or the performance fee, but not both, for Individually Managed Accounts or for the private investment funds, except the Cutler Investment Grade Convertible Fund, LP and the Cutler Income & Growth Fund I, L.P. which are not charged a performance-based fee. For example, at the end of the calendar year, if the annualized management fees exceed the calculated performance fee or allocation amount, only the management fee is paid and no performance fee or allocation will be earned. For all clients and private funds managed, if the performance fee or allocation exceeds the annualized management fee, the performance fee or allocation will be owed, minus the management fees already paid during that calendar year.

### Performance Fee Limitations

If net asset value of an Individually Managed Account or a Private Investment Fund decreases for the year, or the amount of the management fee exceeds the performance fee or allocation, as the case may be, Cutler will earn no performance fee or allocation for that year.

### Trading Costs

Clients pay commissions and trading costs directly from the assets (cash account) within the client account held by the custodian. Trading costs are passed along at net cost as there is no mark-up by Cutler. Trading costs are deducted before the management fee or the performance fee or allocation, as the case may be, is



calculated. Please see the section entitled “Brokerage Practices” beginning on page 15 of this disclosure brochure for additional information on brokerage and other transaction costs.

### Termination

The investment management agreement entered into with Individually Managed Account clients may be terminated by either the client or Cutler by providing written notice to the other party. Withdrawals by investors in Private Investment Funds managed by Cutler are governed by the terms of the offering documents of the individual Private Investment Fund.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As stated in the “Fees and Compensation” section on page 5 of this disclosure brochure, under certain circumstances Cutler manages client accounts where it is eligible to receive a performance-based fee (*e.g.*, for its management of the Individually Managed Accounts) or a performance-based allocation (*e.g.*, for its management of the Private Investment Funds). In addition, Cutler may manage client accounts where it is not eligible to receive performance-based compensation for its advisory services either because the account holder is not a Qualified Client (and thus not permitted to be charged a performance-based fee) or because under the terms of the applicable agreement, Cutler did not earn the performance-based fee or performance-based allocation (in which case only a management fee would then be charged).

### Conflicts of Interest

Situations – such as those described above - where Cutler manages both accounts that pay performance-based compensation and accounts that do not pay performance-based compensation gives rise to certain conflicts of interest that have the potential to motivate Cutler to favor its performance-based account clients over other clients. For example, performance-based fees, are typically significantly higher than the asset-based fees paid on traditional accounts. In the case of private investment funds, many investment advisers, including Cutler and its related persons, have significant investments in the funds that they manage. As a result, Cutler has additional incentives to favor the performance-based clients over other clients by allocating investment opportunities to the performance-based accounts. Finally, because performance-based compensation is not paid unless Cutler achieves a certain level of performance, the above described performance fee or allocation arrangement may create an incentive for Cutler to make investments that are more risky or more speculative than might be the case in the absence of a fee or allocation based on performance.

Cutler is aware of these conflicts of interest and has order allocation procedures to ensure that clients are treated fairly.



## **TYPES OF CLIENTS**

Cutler provides investment advisory services to private investment funds organized as pooled investment vehicles (commonly known as “hedge funds”), individuals (including high net worth individuals), profit sharing plans, trusts, estates, charitable organizations, corporations and other types of business entities.

### **Engaging the Services of Cutler**

#### Individually Management Accounts

All Individually Managed Account clients, must, in addition to completing Cutler’s internal documents (e.g., applicable investment advisory agreement, risk questionnaire), complete certain broker-dealer/custodial documentation. Upon completion of these documents, Cutler will be considered engaged by the client. Clients will be responsible for ensuring that Cutler is informed in a timely manner of changes in investment objectives and risk tolerance.

#### Private Investment Funds

Investors in Private Investment Funds managed by Cutler will be required to complete a subscription agreement (including an investor questionnaire to determine their eligibility for investment in the fund) and become a party to the operating agreement that governs the operation of the applicable Private Investment Fund.

### **Conditions for Managing Accounts**

#### Individually Managed Accounts

Cutler has a standardized minimum portfolio size for all clients of \$500,000; provided, however, that Cutler will not manage a client’s account unless the value of the account assets is sufficiently large enough to enable Cutler to meet the client’s investment objectives. Accounts of less than \$500,000 may be set up when the client and Cutler anticipate the client will add additional funds to the accounts bringing the total to \$500,000 within a reasonable time or to accommodate IRA, related accounts or other circumstances.

#### Private Investment Funds

The minimum initial investment in Private Investment Funds managed by Cutler vary depending on the particular fund.

The minimum initial investment in the Cutler Investment Fund, L.P. and Cutler Income & Growth Fund I, L.P. is \$250,000. The minimum initial investment in the Cutler Investment Grade Convertible Fund, LP is \$1,000,000. The minimum initial investments in the Private Investment Funds may be waived at the sole discretion of Cutler.



## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Types of Investments**

In addition to convertible securities, real estate investment trusts (REITs) and dividend-paying stocks, Cutler may also offer advice on private equity investments, including venture capital partnerships.

### **Investment Strategies and Objectives**

#### In General

Cutler may utilize different investment strategies, based upon the needs of the client, including long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing.

#### Private Investment Funds

For Private Investment Funds managed by Cutler, the investment strategy and objective will vary depending on the fund:

##### *Cutler Investment Fund, L.P.*

The investment objective of the Cutler Investment Fund, L.P. ("CIF") is to provide investors with attractive total returns in all market conditions through capital appreciation and current income. CIF expects to invest primarily in a diversified portfolio of securities convertible into common stock and issued by both domestic and foreign companies. As part of its investment strategy, CIF may have concentrated exposure to REITS and/or financial service sectors. CIF may invest in other types of securities, including investing directly in debt securities and common stocks, particularly dividend paying stocks, and may use a variety of investment techniques to generate profit and/or control risk, including convertible arbitrage, short selling and leverage. Cutler does not anticipate considering tax implications in connection with managing the portfolio. Details of CIF's investment strategy are more fully described in the offering documentation for the fund.

##### *Cutler Income & Growth Fund I, L.P.*

The investment objective of the Cutler Income & Growth Fund I, L.P. ("CIG") is to provide investors with current income and capital appreciation. CIG expects to invest primarily in a diversified portfolio of securities convertible into common stock and issued by both domestic and foreign companies. As part of its investment strategy, CIG may have concentrated exposure to REITS and/or financial service sectors. CIG will not use leverage as part of its investment strategy (which is the primary difference between the Cutler Investment Fund, L.P. and the Cutler Income & Growth Fund I, L.P.). Cutler does not anticipate considering tax implications in



connection with managing the portfolio. Details of CIG's investment strategy are more fully described in the offering documentation for the fund.

*Cutler Investment Grade Convertible Fund, LP*

The investment objective of the Cutler Investment Grade Convertible Fund, LP ("CIGC") is to achieve a high level of current income together with long-term capital appreciation, consistent with preservation of capital. CIGC will seek to accomplish this objective by investing primarily in a portfolio of investment grade convertible securities.

CIGC will seek to achieve growth by investing primarily in a portfolio of global convertible securities, including convertible bonds, convertible notes, convertible preferred stocks and mandatory securities. CIGC's convertible strategy will focus primarily on opportunities in the United States, Europe and Asia and will seek to build a long portfolio of what Cutler believes to be undervalued convertible securities which offer attractive risk/return characteristics. Under typical market conditions, no more than 20% of the portfolio will be invested in non-investment grade securities and no more than 20% of the portfolio will be invested in non-US securities, although such percentage may change (with both such percentage and credit quality measured at the time of purchase.)

CIGC will seek to identify situations that, though subject to short term volatility, offer opportunities for substantial appreciation and growth so that CIGC achieves the long-term returns associated with stocks with less volatility. In seeking such situations, Cutler will attempt to identify convertible securities that have certain attractive bond characteristics (i.e., fixed coupon, maturity at par, short duration) but will also participate in a substantial portion of the underlying stock's advances, while being sheltered from a significant portion of its declines. At the same time, Cutler will seek to select convertibles that provide a current yield substantially in excess of the yield for the underlying stock.

In addition, CIGC may invest in equities or use equity-related instruments, including American Depositary receipts, in its investment program, for speculative or hedging purposes. The investment strategy of CIGC may require Cutler to actively trade CIGC's portfolio. Cutler does not anticipate considering tax implications in connection with managing the portfolio. When market conditions or other considerations justify, in the sole discretion of Cutler, CIGC may devote all or a substantial portion of CIGC's capital to cash, cash equivalents or short-term obligations of the U.S. government, its agencies and instrumentalities. In addition, CIGC may lend securities to domestic or foreign financial institutions in order to seek to increase the returns generated by its portfolio. Such transactions would normally be secured by collateral of similar market value.

## **Security Analysis**

The security analysis methods employed by Cutler are fundamental and technical analysis.



## Sources of Information

In conducting security analysis, Cutler may utilize the following sources of information: financial newspapers and magazines, research materials prepared by others, inspection of corporate activities, corporate rating services, annual reports, prospectuses, filings with the U.S. Securities and Exchange Commission and company press releases. In addition, when deemed necessary or advantageous, Cutler will conduct interviews with a company's executive management and/or make on-site visits. Cutler also purchases research from firms specializing in either equity or debt analysis and valuation.

## Risk

### In General

Investing in securities involves risk of loss that each client should be prepared to bear. Typical investment risks include market risk typified by a drop in a security's price due to a company specific event (e.g. unsystematic risk), or general market activity (e.g., systematic risk). In addition, certain strategies may impose more risk than others. For example, with fixed income securities, a period of rising interest rates could erode the value of bond since bond values generally fall as bond yields rise. Investment risk with international equities also includes fluctuation in currency values, differences in accounting and economic and political instability. Depending upon the client need and investment mandate, Cutler will endeavor to thoroughly explain the applicable risks.

### Convertible Securities

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value."

The investment value of a convertible security is influenced by changes in interest rates, the credit standing of the issuer and other factors. The conversion value of a convertible security is determined by the market price of the underlying common stock. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. A convertible security will generally be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a partnership managed by Cutler is called for redemption, the partnership will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the partnership's ability to achieve its investment objective.



### Margin Transactions

When buying stocks on margin, you are employing leverage as an investing strategy. Leverage allows you to extend your financial reach by investing using borrowed funds while limiting the amount of your own cash you expend. Please note, however, that this can involve a high degree of risk. Some of these risks include:

- Losing more money than you have invested;
- Being required to deposit additional cash or securities in your account on short notice to cover market losses;
- Being forced to sell some or all of your securities when falling stock prices reduce the value of your securities; and
- Having your brokerage firm sell some or all of your securities without consulting you to pay off the loan it made to you.

### Options

There are numerous risks associated with transactions in options on securities or securities indexes. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. As the writer of covered call options, the client forgoes, during the option's life, the opportunity to profit from increases in the market value of the underlying security or the index above the sum of the option premium received and the exercise price of the call, but has retained the risk of loss, minus the option premium received, should the price of the underlying security decline. In the case of index options, the client incurs basis risk between the performance of the underlying portfolio and the performance of the underlying index. For example, the underlying portfolio may decline in value while the underlying index may increase in value, resulting in a loss on the call option while the underlying portfolio declines as well.

### Private Investment Funds

Private investment funds generally involve various risk factors and liquidity constraints, a complete discussion of which is set forth in the fund's offering documents, which will be provided to each investor for review and consideration. Each prospective investor will be required to complete a subscription agreement, pursuant to which the investor shall establish that they are qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

### **Cash Management**

When a client portfolio has cash a suitable money market fund is selected from a list of funds provided by Cutler's custodian. Suitability is based on clients tax status and risk tolerance.



## **DISCIPLINARY HISTORY**

Neither Cutler nor any of its supervised persons have any reportable disciplinary history.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Cutler is the general partner of the Cutler Investment Fund, L.P., a private investment fund organized as a pooled investment vehicle. Cutler Investment Fund, L.P. is the successor to the Cutler Investment Fund, LLC. Cutler is also the general partner of the Cutler Income & Growth Fund I, L.P., and the Cutler Investment Grade Convertible Fund, LP, all private investment funds organized as pooled investment vehicles.

Please see the section entitled “Investment Strategies and Objectives” on page 10 of this disclosure brochure for the types of investments made by the Cutler Investment Fund, L.P., the Cutler Income & Growth Fund I, L.P., and the Cutler Investment Grade Convertible Fund, LP.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Cutler has adopted a Code of Ethics to prevent violations of federal securities laws. The Code of Ethics is predicated on the principle that Cutler owes a fiduciary duty to its clients. Accordingly, Cutler expects all employees to act with honesty, integrity and professionalism and to adhere to federal securities laws. All officers, directors, partners and employees of Cutler and any other person who provides advice on behalf of Cutler and is subject to Cutler’s control and supervision are required to adhere to the Code of Ethics. At all times, Cutler and its employees must (i) place client interests ahead of Cutler’s; (ii) engage in personal investing that is in full compliance with the Code of Ethics; and (iii) avoid taking advantage of their position. Clients and prospective clients may request a copy of Cutler’s Code of Ethics by contacting David N. Grenier, President of Cutler, at 508-757-4455.

### **Prohibition on Use of Insider Information**

Cutler has also adopted policies and procedures to prevent the misuse of “insider” information. A copy of Cutler’s Insider Trading policies and procedures is available to any client or prospective client upon request. For a copy of Cutler’s Insider Trading policies and procedures, please contact David N. Grenier, President of Cutler, at 508-757-4455.



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

*Cutler may purchase or sell for a client, portfolio securities or investment products in which Cutler or its related personnel have a material financial interest.*

As the general partner of the Private Investment Funds, Cutler maintains a capital account in each of the Private Investment Funds and therefore, receives allocations of net profits (or losses). Cutler employees and members of their families have also invested in the one or more of the Private Investment Funds. In order to create a strong congruity of interest between the management of the Private Investment Funds and its investors, all investment professionals employed by Cutler are encouraged to invest in the Private Investment Funds.

*Cutler may purchase or sell securities in client accounts managed by Cutler when the same securities are held by a Cutler employee individually or in a corporate profit sharing plan.*

To minimize conflicts of interest, and to maintain the fiduciary responsibility Cutler has for its clients, Cutler has established the following policy: An officer, manager, or employee of Cutler is not permitted to buy or sell securities for a personal portfolio when the decision to purchase is derived by reason of their employment with Cutler, unless the information is also available to the investing public on reasonable inquiry. No person associated with Cutler shall prefer his or her own interest to that of any client. Personal trades in securities being purchased or sold for clients may only be made simultaneously with or after trades are made for clients. Cutler personnel may not anticipate trades to be placed for clients. Cutler monitors employee personal and proprietary trading activity. This activity is reviewed at least quarterly to ensure compliance with internal control policies and procedures.

### Additional Information

At times, Cutler or its related persons may purchase securities that it deems appropriate only for its or their own account. Based on the experience of Cutler or its related persons holding the securities and on further research and due diligence, Cutler may at a later time purchase such securities for client accounts at prices which might be higher or lower than those originally paid.

## **BROKERAGE PRACTICES**

### **Brokerage Selection**

#### Best Execution

Best execution has been defined by the SEC as the “execution of securities transactions for clients in such a manner that the client’s total cost or proceeds in each transaction is the most favorable under the circumstances.” The best execution



responsibility applies to the circumstances of each particular transaction and an investment adviser must consider the full range and quality of a broker-dealer's services, including, among other things, execution capability, commission rates, the value of any research, financial responsibility and responsiveness.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while Cutler will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

For fixed income securities, Cutler attempts to obtain best execution for the volume of bonds sought by speaking with more than one broker and comparing pricing and transactions costs.

#### Broker Analysis

Cutler evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions. These include the broker-dealer's trading costs, efficiency of execution and error resolution, financial strength and stability, capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinion pertaining to trading and prior performance in serving Cutler.

Cutler's Investment Team is responsible for continuously monitoring and evaluation the performance and execution capabilities of brokers that transact orders for our client accounts to ensure consistent quality executions. In addition, Cutler periodically reviews its transaction costs in light of current market circumstances and other relevant information.

#### Research/Soft Dollar Benefits

Research or investment-management-related services provided by brokers through which portfolio transactions are executed, settled and cleared may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities, on-line quotations, news and research services, and other services providing lawful and appropriate assistance to Cutler in the performance of its investment decision-making responsibilities (collectively, "soft dollar items").

Soft dollar items may be provided directly by brokers, by third parties at the direction of brokers or purchased by Cutler with soft-dollar credits provided by brokers. Soft dollar items may arise from over-the-counter principal or agency transactions, as well as exchange traded agency transactions. Brokers sometimes suggest a level of business that they would like to receive in return for the various services that they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the



suggestions because total brokerage is allocated on the basis of all the considerations described above. A broker will not be excluded from executing transactions for Cutler because it has not been identified as providing soft dollar items. Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), permits the use of soft dollar items in certain circumstances, provided that Cutler does not pay a rate of commissions in excess of what is competitively available from comparable brokerage firms for comparable services, taking into account various factors, including commission rates, financial responsibility and strength and ability of the broker to efficiently execute transactions. Non-research products and “soft dollars” which are not generated through agency transactions in securities are outside the parameters of Section 28(e)’s “safe harbor.”

Cutler may, from time to time, use soft dollars to pay some or all of the costs of research and brokerage services; provided, however, that (a) any research obtained is (i) related to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities or (ii) consists of reports and analyses concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts and (b) any brokerage services obtained are related to effecting securities transactions or functions incidental to effecting securities transactions such as clearance, settlement and custody.

Soft dollar items, whether provided directly or indirectly, may be utilized for the benefit of Cutler and its affiliates’ other accounts. Cutler may from time to time use soft dollars to acquire soft dollar items that Cutler or its affiliates would otherwise be obligated to provide, or acquire at their own expense. Nonetheless, Cutler believes that such soft dollar items may provide private investment funds managed by Cutler and its separately managed accounts with benefits by supplementing the research and services otherwise available to Cutler.

While as a fiduciary Cutler endeavors to act in its clients’ best interests, Cutler’s use of these broker-dealers may be based in part on the benefit to Cutler of the availability of some of the foregoing products and services and not solely on the nature cost or quality of custody and brokerage provided by these broker-dealers which may create a conflict of interest.

### **Trade Aggregation/Allocation**

It is the objective of Cutler to provide a means of allocating trading and investment opportunities between clients on a fair and equitable basis and in compliance with applicable SEC guidelines. With respect to clients’ accounts with substantially similar investment objectives and policies, Cutler may often seek to purchase or sell a particular security in each account. Cutler will aggregate orders when the portfolio manager and trader believe that such aggregation is consistent with Cutler’s duty to seek best execution and is consistent with the investment objective of each client. Each client that participates in an aggregated order will participate based on the average execution price in that particular security. All securities purchased or sold, whether the order is filled completely or partially, will then be allocated pro rata



based on the account's order size. Prior to purchasing or selling a security, Cutler will identify a "target position" based on each client's total assets, for each account participating in the aggregated order. For accounts that are managed with similar investment objectives and policies, Cutler generally set a similar target position for each account, adjusted however, for the amount of assets in the each such account. Cutler's books and records will separately reflect, for each client account, the orders that were aggregated, the securities held by, and bought and sold for, that account.

Any exceptions to Cutler's pro rata allocation methodology must be determined to be consistent with Cutler's duty to provide its clients with fair and equitable treatment in allocating trades and investment opportunities. Such determination will be documented. Examples of circumstances that may provide cause for an exception from the pro rata allocation include, but are not limited to:

- Order size. In circumstances where an order is only partially filled, the actual amount of securities may be too small to allocate among all of the participants (e.g., allocation would result in an undesirably small position for an account).
- Account-Specific Restrictions. Certain accounts are restricted from owning certain securities or entering into transactions with certain affiliated entities, and thus would not participate in certain transactions.

In the event that pro rating the allocation would not be fair, Cutler will follow the following guidelines:

- Client(s) without a current position in the security may receive the entire or partial allocation, (Cutler will seek to pro-rate the allocation if more than one client's portfolio is without the current position and pro-rating yields a fair result).
- Client(s) having the lowest % of the security, relative to the portfolio manager's target level for that security, may receive the entire or partial allocation.
- The executed quantity fills one client's entire allocation then that account receives the shares.
- Clients with the highest % in cash may be allocated the entire or partial allocation.
- Clients with the lowest % of assets of that industry may be allocated the entire or partial allocation.

## REVIEW OF ACCOUNTS

While the underlying securities within client accounts are continuously monitored, accounts are reviewed no less frequently than annually.



Melvin S. Cutler, Chief Investment Officer and David N. Grenier, President, and Geoffrey Dancey, Securities Analyst, are the only reviewers of client accounts.

Cutler provides each Individually Managed Account client and investor in a Private Investment Fund managed by Cutler, a letter quarterly indicating the performance of their account (or combined accounts) on a year-to-date basis (after management fees). Performance for the period is compared to one or two major indices. In addition, the quarterly communication includes brief remarks regarding the investing environment and administrative information, including quarterly fees.

Upon request, clients are able to receive more detailed portfolio reports. Custodians provide clients account statements monthly and trade confirmation slips for each trade. Clients are urged to compare the account statement provided by the broker-dealer/custodian with those provided by Cutler. In addition, many clients arrange with the custodian to view their accounts as frequently as desired via the internet.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

### **Cutler as Solicitor**

Cutler does not receive any economic benefit from non-clients for the provision of investment advice to its clients.

### **Cutler Retaining Solicitors**

From time to time, Cutler may retain solicitors to refer clients to Cutler. If a client is introduced to Cutler by either an unaffiliated or an affiliated solicitor, Cutler may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Cutler's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Cutler by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of their solicitor relationship, and shall provide each prospective client with a copy this written disclosure brochure together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Cutler and the solicitor, including the compensation to be received by the solicitor from Cutler. Any affiliated solicitor of Cutler shall disclose the nature of their relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this written disclosure brochure.

## **CUSTODY**

Cutler is deemed to have custody because (i) Cutler is permitted to deduct its fees directly from clients' Individually Managed Accounts and (ii) Cutler serves as general partner to private investment funds organized as pooled investment vehicles.



### Individually Managed Accounts

Custody of Individually Managed Account client assets will be maintained with a qualified custodian. Cutler will not have physical custody of any assets in the client's account except as permitted for payment of advisory fees. Clients will be solely responsible for paying all fees or charges of the custodian. Clients will authorize Cutler to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account.

Clients will receive directly from the custodian at least quarterly a statement showing all transactions occurring in the client's account during the period covered by the account statement, and the funds, securities and other property in the client's account at the end of the period. Clients are urged to compare the account statement provided by the broker-dealer/custodian with any statements provided by Cutler.

### Private Investment Funds

Investors in private investment funds in which Cutler serves as investment manager will receive the following: (i) annual audited financial statements of the fund audited by an independent certified public accounting firm, (ii) a quarterly letter from discussing the results of the fund for the quarter just ended, (iii) an annual letter discussing the results of the fund for the year just ended, and (iv) copies of such investor's Schedule K-1 to the fund's tax return.

## **INVESTMENT DISCRETION**

### Individually Managed Accounts

Cutler requires that it be provided with written discretionary authority (e.g., limited power of attorney contained in Cutler's Investment Management Agreement) to make the following determinations without obtaining the consent of the client before the transactions are effected: (1) which securities are bought and sold for the account; (2) the total amount of securities to be bought and sold; (3) selecting the broker or dealer with whom orders for the purchase or sale of securities are placed for execution, unless specifically instructed to the contrary through the investment management agreement or investment policy statement; and (4) the prices and commission rates at which securities transactions are effected. Cutler's authority in making investment related decisions may be limited by account guidelines, investment objectives and trading restrictions, as agreed between Cutler and the client and set forth in writing in the investment management agreement or investment policy statement.



## Private Investment Funds

As general partner of the Private Investment Funds, Cutler is solely responsible for researching, selecting and monitoring investments and in making decisions on when and how much to invest with or withdraw from a particular investment. Limited partners in private investment funds organized as limited partnerships do not have any right to participate in management or in making investment decisions. In addition, Cutler has authority to select the broker or dealer with whom orders for the purchase or sale of securities for the funds are placed for execution. Cutler also has the authority to determine the prices and commission rates at which securities transactions for the funds are effected.

## **VOTING CLIENT SECURITIES**

### **Proxy Voting**

Cutler does not vote proxies on behalf of its Individually Managed Account clients. Therefore, although Cutler may provide investment advisory services relative to client investment assets, it is the client that maintains exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceeding or other type events pertaining to the client's investment assets. Cutler and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. Clients can contact David N. Grenier, President of Cutler, at 508-757-4455 if they have questions regarding a particular solicitation.

### **Class Action Settlements**

Although Cutler has discretion over client accounts, it will not be responsible for handling client claims in class action lawsuits or similar settlements involving securities owned by the client. Clients will receive the paperwork for such claims directly from their account custodians. Each client should verify with their custodian or other account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly.

## **FINANCIAL INFORMATION**

### **Prepayment of Fees**

Because Cutler does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, Cutler is not required include a balance sheet with this disclosure brochure.



**Financial Condition**

Cutler does not have any adverse financial conditions to disclose.

**Bankruptcy**

Cutler has never been the subject of a bankruptcy petition.

**PRIVACY NOTICE**

Cutler views protecting its clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. Cutler does not disclose any nonpublic personal information about its clients or former clients to any nonaffiliated third parties, except as permitted or required by law. In the course of servicing a client's account, Cutler may share some information with its service providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers, etc. Cutler restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for Cutler. As emphasized above, it has always been and will always be Cutler's policy never to sell information about current or former clients or their accounts to anyone. It is also Cutler's policy not to share information unless required to process a transaction, at the request of a client, or as required by law. For the full text of Cutler's Privacy Policy, please contact David N. Grenier, President of Cutler, at 508-757-4455.

**CLIENT COMPLAINTS**

Clients may contact David N. Grenier, President of Cutler, at 508-757-4455 to submit a complaint. Written complaints should be sent to Cutler Capital Management, LLC, 306 Main Street, 2<sup>nd</sup> Floor, Worcester, MA 01608-1518.