

Item 1: Cover Page

Part 2A of Form ADV
Firm Brochure
May 22, 2012

Poehling Capital Management, Inc.
SEC File No. 801-63189

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This brochure provides information about the qualifications and business practices of Poehling Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at trpoehling@poehlingcapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State securities authority. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

Additional information about Poehling Capital Management, Inc., is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This Firm Brochure is our disclosure document prepared according to new regulatory requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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Item 4: Advisory Business

A. Description of Your Advisory Firm

Poehling Capital Management, Inc. ("PCM" or "the firm"), a Wisconsin corporation, is headquartered in Madison, Wisconsin, with a branch office located in La Crosse, Wisconsin, that has been providing investment advisory and financial planning services since May of 2004 and is principally owned by Thomas Poehling. PCM is an investment advisor providing financial planning, estate planning, discretionary and non-discretionary investment management services to its clients. In this regard, PCM provides consulting, planning, implementation and management of investment portfolios. For discretionary services, PCM receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies as itemized in Item 8 of this Brochure.

B. Description of Advisory Services Offered

PCM is an independent investment advisory and financial planning firm offering a variety of financial services to individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Advisory services may include investment strategy, portfolio management, financial and estate planning.

For its discretionary asset management services, PCM receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies as described in Item 8 of this Brochure. In addition, pursuant to the terms of its investment advisory agreement with clients, PCM will remind clients of their obligation to inform the firm of any changes to their personal financial circumstances, investment objectives or risk tolerance, and modifications or restrictions that should be imposed on the management of their accounts. PCM will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

B.1. Financial Planning Services

Our professionals interview each client at length to determine the client's goals, objectives, investment time horizon and risk tolerance. PCM reviews documents supplied by the client such as wills, insurance policies and income tax returns.

Generally, any of the service categories listed below, on a standalone basis, require a minimum of ten (10) hours to compile the necessary data to provide the requested service. This would equate to a minimum fee of \$2,500. In the event the client selects an additional service category, each additional service category would add approximately two (2) to five (5) hours of additional time to complete. For example, the selection of two service categories would require twelve (12) to fifteen (15) hours at an hourly rate of \$250 per hour. Please note these are good faith estimates. Factors that could drive the amount of time and cost higher are the number and complexity of assets, number of securities accounts, number of trusts, number and complexity of corporate entities, client imposed requirements, complexity of tax situation, and related factors.

Based on the client's needs, financial planning services may include (but are not limited to) the following:

- **Personal Financial Planning** This includes an analysis of family records, budgeting, evaluation of liability issues, estate planning and determination of financial goals.
- **Cash Flow and Tax Planning** This includes spending analyses and income tax planning. PCM counsels clients concerning the current and future tax effects of various investment vehicles.
- **Retirement Planning** PCM helps clients determine their retirement goals and formulates investment strategies to assist in reaching those goals.
- **Investment Planning** PCM evaluates investment alternatives and their effect on a client's portfolio.

PCM recommends that all clients work closely with their attorney, accountant, insurance agent and investment advisor to implement a financial plan.

B.2. Investment Management Services

For discretionary investment management services to clients with assets generally greater than \$250,000, PCM offers its value-oriented investment methodology through a series of model portfolios that span each of the risk tolerance categories across the risk spectrum. PCM invests in securities of large capitalization companies that are selling at significant discounts to their intrinsic value, with additional investments in non-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of quality companies with strong financials run by experienced, shareholder-friendly management teams that are selling at significant discounts to historical valuation metrics and can be acquired at attractive prices. PCM's primary focus will be on publicly traded equities (common and preferred stocks), exchange traded funds, open end mutual funds, fixed income (taxable and tax-free) and option contracts. Please refer to Item 8 of this Brochure for a complete listing of the types of securities for which PCM provides advice.

Client portfolios are managed on an individual customized basis, taking into account the client's investment goals, objectives, risk tolerance and other financial circumstances. PCM reserves the right to offer investment management program strategies in the future, whereby clients, if appropriate, will elect to invest in a PCM-offered discretionary investment management program strategy.

In the majority of instances, PCM will evaluate a host of risk management factors (client account size, investment allocation parameters, withdrawal rate, etc.), which may result in the recommendation of one or more third-party separate account managers to manage one or more asset classes that fall outside the scope of PCM's core investment management competency and/or in order to achieve proper diversification. Please be advised that in such instances, PCM acts in the capacity of an investment consultant and provides advice as to the most appropriate separate account manager in light of the client's personal and financial circumstances. PCM's fees for this service are the same as if it were managing the portfolio assets on a proprietary basis. In addition to fees charged by PCM, the client will incur charges from the separate account manager.

Although PCM places its clients' interests first by recommending the most appropriate separate account manager for one or more asset classes outside of its core investment management competency, there is the potential for conflicts in that the client's fees will always be less if the client utilizes PCM as an investment manager rather than as an investment consultant and allocating all or a portion of the portfolio assets to a third-party separate account manager. As a result, PCM may have an economic incentive to recommend its proprietary managed product over that of the third-party separate account manager. Clients should be aware that they will incur fees from PCM and any third-party money manager utilized. Such additional fees will detract from any increase in portfolio return as a result of hiring the third-party money manager. Please note, though, that PCM would only consider recommending a third-party money manager for those asset classes that fall outside the scope of PCM's core investment management competency and/or in order to achieve proper diversification based on a host of client-specific risk management factors that are detailed above. In this regard, PCM believes it is placing its clients' interests first and fulfilling its fiduciary obligation to clients.

For clients with assets generally less than \$250,000, PCM offers its value-oriented investment methodology through mutual fund models that span each of the risk tolerance categories across the risk spectrum. PCM invests in mutual funds whose portfolio securities consist of small- to large-capitalization companies that the mutual fund manager believes are selling at significant discounts to their intrinsic value, with additional investments in mutual fund securities that consist of lower-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of mutual funds consisting of quality companies with strong financials run by experienced, shareholder-friendly management teams.

B.3. Outside Assets – 401(k) Plans and Related Assets

PCM may also provide investment advisory services to retirement plans ("Plan") or retirement plan participants ("Participants"). PCM may prepare personal asset allocation targets after obtaining and evaluating information concerning individual client circumstances provided by each Participant in response to a risk profiling questionnaire. PCM may provide recommendations as to an appropriate asset class structure and/or securities from a list of securities approved by the plan sponsor ("Sponsor").

The asset allocation and mutual fund recommendations made to such clients may differ from those made by PCM to high-net-worth and affluent individuals and institutions for one or both of the following reasons:

- A Participant's asset allocation target typically consists of a smaller number of asset categories to reflect the relatively smaller size of the Participant's investment assets.
- The Sponsor has constrained the investment alternatives from which PCM may make recommendations. In such cases, PCM may be required to observe quantitative criteria established by the Sponsor in preparing Participant-oriented lists of mutual funds, or to confine the advice given to choices among a relatively narrow set of investment alternatives established by the Sponsor. Participants are informed when the Sponsor of the group imposes constraints on PCM's ability to recommend mutual funds or other securities.

C. Client-Tailored Services and Client-Imposed Restrictions

Clients' accounts will be managed on the basis of their financial situation and investment objectives and in accordance with any reasonable restrictions they have imposed on the management of their accounts—for example, restricting the type or amount of security to be purchased in the portfolio.

D. Wrap Fee Programs

PCM does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

E. Client Assets Under Management

As of March 31, 2012, PCM has \$94,979,325 of discretionary assets and \$7,564,099 of non-discretionary assets under management.

Item 5: Fees and Compensation

A. Methods of Compensation and Fee Schedule

A.1. Asset-Based Fee Schedule

PCM charges its fees quarterly in arrears, based on the value of assets as of the last trading day of the preceding calendar quarter. If an investment advisory agreement becomes effective during the calendar quarter, fees are prorated for the period from the effective date of the agreement to the last trading day of the calendar quarter. Asset-based fees are calculated based upon the actual days in the quarter divided by 365 multiplied by the annual percentage fee. PCM's fee schedule, which is negotiable, is as follows:

<u>Assets Under Management</u>	<u>Annual Fee Rate*</u>
First \$500,000	1.25%
Next \$500,000	1.10%
Next \$1,000,000	1.00%
Next \$3,000,000	0.85%
Next \$5,000,000	0.70%
Above \$10,000,000	0.50%

* Fees are negotiable.

PCM generally requires a minimum account size of \$250,000 for discretionary investment management services. As such, there is an implied minimum fee of \$3,125. For clients with less than \$100,000 in portfolio assets, PCM will recommend a diversified portfolio of no-load or load-waived mutual funds that serve as a proxy of its core value philosophy, with an overlay of non-correlated assets. PCM will not deliver performance reports to such clients and will be available to discuss the portfolio no less frequently than annually or as otherwise mutually agreed upon with the client. PCM may, in its sole discretion, waive the required minimums discussed above.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. PCM may modify the fee at any time upon thirty (30) days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

Generally, fees will be charged quarterly in arrears. The client and the client's custodian or broker-dealer will be invoiced at the end of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of such quarter, as mutually agreed upon by the client and PCM.

Asset-based fees are always subject to the investment advisory agreement between the client and PCM. Such fees are paid quarterly in arrears. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter.

A.2. Financial Planning Fees

The applicant charges hourly rates when there are no investment assets to supervise on an ongoing basis. Financial planning hourly fees will be billed at the rate of \$250 per hour. PCM will provide an estimate of hours necessary to provide services prior to entering into an advisory relationship with the client.

Generally, any of the service categories listed below, on a stand alone basis, require a minimum of ten (10) hours to compile the necessary data to provide the requested service. This would equate to a minimum fee of \$2,500. In the event the client selects an additional service category, each additional service category would add approximately two (2) to five (5) hours of additional time to complete. For example, the selection of two service categories would require twelve (12) to fifteen (15) hours at an hourly rate of \$250 per hour. Please note these are good faith estimates. Factors that could drive the amount of time and cost higher are the number and complexity of assets, number of securities accounts, number of trusts, number and complexity of corporate entities, client imposed requirements, complexity of tax situation, and related factors. Based on the client's needs, financial planning services may include (but are not limited to) the following:

- **Personal Financial Planning** This includes an analysis of family records, budgeting, evaluation of liability issues, estate planning and determination of financial goals.
- **Cash Flow and Tax Planning** This includes spending analyses and income tax planning. PCM counsels clients concerning the current and future tax effects of various investment vehicles.
- **Retirement Planning** PCM helps clients determine their retirement goals and formulates investment strategies to assist in reaching those goals.
- **Investment Planning** PCM evaluates investment alternatives and their effect on a client's portfolio.

PCM recommends that all clients work closely with their attorney, accountant, insurance agent, and investment advisor to implement a financial plan.

Invoices will be mailed out on a periodic basis reflecting completed work performed. Clients seeking to terminate this service must do so in writing. Fees are negotiable.

B. Client Payment of Fees

B.1. Payment of Asset-Based Fees

PCM will not take custody or possession of client funds or securities at any time except to the extent that PCM may deduct fees directly from the client's account. PCM will deduct advisory and custodial fees directly from the client's account, provided that (i) the client provides written

authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

B.2. Payment of Financial Planning Fees

In the event of financial planning fees, PCM will invoice the balance due from the client upon completion of the work, provided such balance exceeds the advance payment of \$500.

C. Additional Client Fees Charged

The fees charged by PCM do not include fees charged by any exchange traded fund, mutual fund, separate account manager, or any broker-dealer or custodian selected by the client. The investment management fees charged by separate account managers are disclosed in each manager's disclosure Brochure and Brochure Supplement, and such fees are separate and distinct from the fees charged by PCM. In the case of an exchange traded fund or mutual fund, fees and charges are disclosed in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using PCM may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Generally, fees will be charged in arrears. Clients will be invoiced at the end of each calendar quarter based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of such quarter.

D. Prepayment of Client Fees

PCM does not require the pre-payment of its advisory fees. PCM's fees will either be paid directly by the client or disbursed to PCM by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by PCM with thirty (30) days' prior written notice to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

E. External Compensation for the Sale of Securities to Clients

PCM's financial advisors are compensated solely through a salary and bonus structure. PCM is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products.

Item 6: Performance-Based Fees and Side-by-Side Management

PCM does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

Item 7: Types of Clients

PCM offers its investment services to various types of clients, including high-net-worth individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Although PCM provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

PCM generally requires a minimum account size of \$250,000 for discretionary investment management services. As such, there is an implied minimum fee of \$3,125. For clients with less than \$100,000 in portfolio assets, PCM will recommend a diversified portfolio of no-load or load-waived mutual funds that serve as a proxy of its core value philosophy, with an overlay of non-correlated assets. PCM will not deliver performance reports to such clients and will be available to discuss the portfolio no less frequently than annually or as otherwise mutually agreed upon with the client. PCM may, in its sole discretion, waive the required minimums discussed above.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

A. Methods of Analysis and Investment Strategies

PCM's methods of analysis may include fundamental and technical analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. PCM may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

A.1. Mutual Funds, Exchange Traded Funds, Independent Investment Managers, Individual Equity and Fixed Income Securities

PCM may recommend (i) separate account managers to manage client assets, and (ii) no-load and load-waived funds and individual securities (including fixed income instruments). Such management styles will include, among others, large-, mid- and small-cap value, growth and core; emerging markets; and alternative investments. PCM may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that PCM will take into account when recommending managers to clients. A description of the criteria to be used in formulating an investment recommendation for funds, exchange traded funds, individual securities (including fixed income securities) and managers is set forth below.

PCM has or may form relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of funds and managers
- perform billing and certain other administrative tasks

PCM may utilize additional independent third parties to assist in recommending and monitoring funds and managers to clients as appropriate under the circumstances.

PCM reviews certain quantitative and qualitative criteria related to individual securities, funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending funds or managers include the investment objectives and/or management style and philosophy of a fund or manager, a fund or manager's consistency of investment style, employee turnover, efficiency and capacity. PCM will discuss relevant quantitative and qualitative factors pertaining to its managed portfolios with clients, as required by such clients.

Quantitative and qualitative criteria related to funds and managers are reviewed by PCM on a quarterly basis or such other interval as mutually agreed upon by the client and PCM. In addition, funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the fund or manager by PCM (both of which are negative factors in implementing an asset allocation structure). Based on its review, PCM will make decisions regarding the retention or discharge of a fund or manager.

PCM may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. PCM will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment. PCM will regularly review the activities of funds and managers it has selected.

A.2. Material Risks of Investment Instruments

PCM typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange traded funds
- Corporate debt securities, commercial paper and certificates of deposit
- Municipal securities
- U.S. government securities
- Option contracts on securities
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

- Option contracts on indices
- Option contracts on futures
- Option contracts on commodities
- Futures contracts and index contracts

A.2.a. Equity Securities

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

A.2.b. Warrants and Rights

Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends, and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

A.2.c. Mutual Fund Securities

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

A.2.d. Exchange Traded Funds ("ETFs")

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs[®], streetTRACKS[®], DIAMONDSSM, NASDAQ 100 Index Tracking StockSM ("QQQsSM"), iShares[®] and VIPERS[®]. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another

investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

A.2.e. Corporate Debt, Commercial Paper and Certificates of Deposit

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

A.2.f. Municipal Securities

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

A.2.g. U.S. Government Securities

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

A.2.h. Options on Securities

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

A.2.j. Structured Products

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

A.2.k. Government and Agency Mortgage-Backed Securities

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing

Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

A.2.I. Corporate Debt Obligations

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. PCM may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

A.2.m. Mortgage-Backed Securities

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, PCM may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts, with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments

to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

A.2.n. Collateralized Obligations

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

B. Investment Strategy and Method of Analysis Material Risks

B.1. Model Portfolios

For discretionary investment management services to clients with assets generally greater than \$250,000, PCM offers its value-oriented investment methodology through a series of model portfolios that span each of the risk tolerance categories across the risk spectrum. PCM invests in securities of large-capitalization companies that are selling at significant discounts to their intrinsic value, with additional investments in non-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of quality companies with strong financials run by experienced, shareholder-friendly management teams that are selling at significant discounts to historical valuation metrics and can be acquired at attractive prices. PCM's primary focus will be on publicly traded equities (common and preferred stocks), exchange-traded funds, open end mutual funds, fixed income (taxable and tax-free), and option contracts.

For clients with assets generally less than \$250,000, PCM offers its value-oriented investment methodology through mutual fund models that span each of the risk tolerance categories across the risk spectrum. PCM invests in mutual funds whose portfolio securities consist of small- to large-capitalization companies that the mutual fund manager believes are selling at significant discounts to their intrinsic value, with additional investments in mutual fund securities that consist of lower-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of mutual funds consisting of quality companies with strong financials run by experienced, shareholder-friendly management teams.

The mutual fund models generally entail the use of no transaction fee funds and therefore would tend to have lower transaction costs associated with the ongoing maintenance of the model portfolios. Models that contain individual company securities incur transaction fees when the security is purchased or sold and may involve slightly higher turnover. As a result, models that utilize individual company securities may incur higher overall transaction costs.

B.2. Leverage

Although PCM, as a general business practice, does not utilize leverage, there may be instances in which exchange traded funds, other separate account managers and, in very limited circumstances, PCM will utilize leverage. In this regard, please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor. In addition, the use of leverage enhances the price volatility of the collateral securities which can result in significant loss.

Broker-dealers that carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to satisfy a required margin deposit or withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

B.3. Short-Term Trading

Although PCM, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-velocity trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

B.4. Option Strategies

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

PCM as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

B.4.a. Covered Call Writing

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

B.4.b. Long Call Option Purchases

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options

are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

B.4.c. Long Put Option Purchases

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, then the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

B.4.d. Option Spreading

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; clients may contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

B.4.e. Short Call Option Strategy

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

B.4.f. Short Put Option Strategy

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a

price potentially well above its then-current market value, exposing the investor to potential loss.

B.4.g. Equity Collar

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

B.4.h. Long Straddle

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

C. Concentration Risks

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

Item 9: Disciplinary Information

A. Criminal or Civil Actions

PCM has nothing to disclose for this item.

B. Administrative Enforcement Proceedings

PCM has nothing to disclose for this item.

C. Self-Regulatory Organization Enforcement Proceedings

PCM has nothing to disclose for this item.

Item 10: Other Financial Industry Activities and Affiliations

A. Broker-Dealer or Representative Registration

PCM is not registered as broker-dealer and does not have an application to register pending.

B. Futures or Commodity Registration

PCM is not registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading advisor and does not have an application to register pending.

C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

C.1. Insurance Affiliation

Certain managers, members and registered employees of PCM are licensed insurance agents. With respect to the provision of financial planning services, PCM professionals may recommend insurance products offered by certain insurance carriers with whom PCM has agreements and receive commissions for doing so.

Clients are advised that there is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products offered through such insurance carriers. Clients are also advised that PCM strives to put its clients' interests first and foremost.

D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest

Other than as described in Item 10.C. above, PCM does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

A. Code of Ethics Description

In accordance with the Advisers Act, PCM has adopted policies and procedures designed to detect and prevent insider trading. In addition, PCM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of the firm's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of the firm. PCM will send clients a copy of its Code of Ethics upon written request.

PCM has policies and procedures in place to ensure that the interests of its clients are given preference over those of the firm, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material nonpublic information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

PCM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, PCM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest

PCM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which PCM specifically prohibits. PCM has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest,
- prohibit front-running, and
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow PCM's procedures when purchasing or selling the same securities purchased or sold for the client.

D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest

PCM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other of the firm's clients. PCM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of PCM to place the clients' interests above those of the firm and its employees.

Item 12: Brokerage Practices

A. Factors Used to Select Broker-Dealers for Client Transactions

PCM may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although PCM may recommend/require that clients establish brokerage accounts with Schwab, PCM is independently owned and operated and not affiliated with Schwab.

Schwab does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Schwab accounts.

In certain instances and subject to approval by the firm, PCM will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by PCM will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

A.1. Institutional Trading and Custody Services

Schwab provides PCM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab. These services are not contingent upon PCM committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

A.2. Other Products and Services

Schwab also makes available to PCM other products and services that benefit PCM but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of PCM's accounts, including accounts not maintained at Schwab. Schwab also makes available to PCM its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)

- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of PCM's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

Schwab also offers other services intended to help PCM manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to PCM. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to PCM. Schwab may also provide other benefits such as educational events or occasional business entertainment of PCM personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, PCM may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

A.3. Independent Third Parties

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to PCM. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to PCM.

B. Aggregating Securities Transactions for Client Accounts

B.1. Best Execution

PCM, pursuant to the terms of its investment advisory agreement with clients, may have discretionary authority to determine the nature and type of securities to be bought and sold and the price of such securities to be paid to effect such transactions. PCM will effect client securities transactions through the client's custodian.

B.2. Directed Brokerage

B.2.a. PCM Recommendations

PCM typically recommends Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

B.2.b. Client-Directed Brokerage

Occasionally, clients may direct PCM to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage PCM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. PCM loses the ability to aggregate trades with other PCM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

B.3. Security Allocation

Since PCM may be managing accounts with similar investment objectives, PCM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by PCM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

PCM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. PCM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

PCM's advice to certain clients and entities and the action of the firm for those and other clients are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of PCM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of PCM to or on behalf of other clients.

B.4. Order Aggregation

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if PCM believes that a larger size block trade would lead to best overall price for the security being transacted.

B.5. Allocation of Trades

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

PCM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interests of its clients.

B.6. Soft Dollar Arrangements

PCM does not utilize soft dollar arrangements. PCM does not direct brokerage transactions to executing brokers for research and brokerage services.

B.7. Brokerage for Client Referrals

PCM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

Item 13: Review of Accounts

A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, is conducted in the first instance by the PCM investment advisor representative servicing the client relationship. Such professionals are subject to the general authority of PCM's President and Chief Compliance Officer. The President or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The President or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client. Such reviews are performed no less frequently than quarterly.

B. Review of Client Accounts on Non-Periodic Basis

PCM may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how PCM formulates investment advice.

C. Content of Client-Provided Reports and Frequency

PCM issues quarterly performance reports to investment advisory clients with a minimum portfolio value of \$250,000, reflecting a current market appraisal of the client's account(s) as well as a year-end report showing realized gains, dividends and interest. PCM investment advisory clients also receive monthly account statements from their custodian (no less frequently than quarterly). Clients are urged to compare the reports issued by PCM against the reports issued by the custodian and notify PCM of any discrepancies. The custodian's report is the official record of the client's account.

Item 14: Client Referrals and Other Compensation

A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

Other than as described in Items 10 and 12 of this Brochure, PCM does not receive economic benefits from external sources.

B. Advisory Firm Payments for Client Referrals

PCM may enter into agreements with solicitors who will refer prospective advisory clients to PCM in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206 (4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with PCM. The solicitor must provide the client with a disclosure document describing the fees it receives from PCM, whether those fees represent an increase in fees that PCM would otherwise charge the client, and whether an affiliation exists between PCM and the solicitor.

Item 15: Custody

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in their accounts. PCM urges its clients to compare the account balance(s) shown on their PCM performance review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

Item 16: Investment Discretion

Clients may grant a limited power of attorney to PCM with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In such cases, PCM will exercise full discretion as to the nature and type of securities to be purchased and sold and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

Item 17: Voting Client Securities

PCM does not take discretion with respect to voting proxies on behalf of its clients. PCM will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by or with respect to issuers of securities beneficially held as part of PCM supervised and/or managed assets.

Item 18: Financial Information

A. Balance Sheet

PCM does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients

PCM does not have any financial issues that would impair its ability to provide services to clients.

C. Bankruptcy Petitions During the Past Ten Years

There are no bankruptcy petitions to report.