

LEGG MASON
INVESTMENT
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FORM ADV – PART 2

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This Brochure provides information about the qualifications and business practices of Arthur Karafin Investment Advisers (“AKIA”). If you have any questions about the contents of this Brochure, please contact us at (215) 981-0110. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

AKIA is a department of Legg Mason Investment Counsel, LLC, (“LMIC”), a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about both AKIA and LMIC is also available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2. MATERIAL CHANGES

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure, dated June 30, 2011, is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

We will further provide you with a new Brochure, as needed, based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting AKIA at (215)981-0110 or Compliance@LMICGlobal.com.

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ITEM 4. ADVISORY BUSINESS

Overview of the Firm

Arthur Karafin Investment Advisors (“AKIA”, “the firm”, or “we”) is a separate and distinct department of LMIC that also provides discretionary investment management services to individuals, corporations and other entities located in the Philadelphia area.

LMIC is a wholly owned subsidiary of Legg Mason Investment Counsel & Trust Company, N.A. (“LMIC&T”). LMIC&T is a National Banking Association regulated by the Office of the Comptroller of the Currency.

Customization of Advisory Services

We work closely with our clients to ensure that their goals and objectives are met. For clients with specific investment guidelines, we provide customized portfolios. Any client-imposed limitations or guideline restrictions would be defined and outlined in the client's initial documentation with the firm. All clients maintain investment advisory agreements with us. The investment advisory agreement is the contract that governs our relationship with the client.

In addition to the investment advisory agreements that we maintain with all clients, we also maintain investment policy statements or written investment guidelines for our institutional clients. These documents address a client's guidelines and objectives with greater detail. It is important to note that many of our institutional clients have their own investment policy statements. When clients provide us with their own investment policy statements, we make sure that the language is reflective of our investment management responsibility. When necessary, the language is adjusted and approved by both the client and us before management of the account begins.

Wrap Program Participation

When LMIC participates as investment adviser in a Wrap Program, we do not manage wrap fee program accounts any differently than other accounts managed in the same investment strategy.

Assets Under Management

As of March 31, 2011, we had \$782,562,284 in assets under management. All of these assets are managed on a discretionary basis.

LMIC, including AKIA, had \$7,171,924,682 in assets under management as of March 31, 2011. Of that total \$6,734,450,339 (or approximately 94%) represents assets managed on a discretionary basis and \$437,474,343 (or approximately 6%) represents assets managed on a non-discretionary basis.

ITEM 5. FEES AND COMPENSATION

How are we compensated for our advisory services?

For all investments managed by AKIA, normally the standard annual fee schedule is 100 basis points, but can vary depending on circumstances. AKIA requests that each client designate the brokerage firm through which account transactions will be effected, the commission rate, and effects a majority of account transactions through two particular registered representatives at Morgan Stanley Smith Barney. AKIA does not negotiate commission rates as part of the services provided by AKIA. Please refer to Item 12 for additional information regarding the brokerage activities of AKIA.

Are AKIA fees negotiable?

Yes, in certain or exceptional circumstances, AKIA fee schedules are negotiable. The factors involved in such negotiation may include, but are not limited to, the size of the client's account; anticipated levels of transaction activity; and other investment account relationships between the client and AKIA or its affiliates. Because AKIA fees are negotiable, fees may vary among clients.

AKIA does not negotiate the fees paid by wrap account clients to their wrap program sponsor. Wrap account clients should review all materials available from the sponsor concerning the program sponsor and the wrap program's terms, conditions and fees.

Do we bill clients, deduct fees directly from clients' accounts or both?

There are two options you may select to pay for our services:

Direct debiting (preferred): At the inception of the relationship and each quarter thereafter, we will notify your custodian of the amount of the management fee due and payable to us through our fee schedule and contract. If you choose this method you must provide written authorization to the custodian permitting our management fee to be paid directly from your account held by an independent custodian. The custodian does not validate or check our fee or its calculation on the assets on which the fee is based. They will deduct the fee from your account(s) or, if you have more than one account, from the account you have designated to pay our advisory fees. Each month, you will receive a statement directly from your custodian showing all transactions, positions and credits/debits into or from your account; the statements after the quarter end will reflect these transactions, including the advisory fee paid by you to us.

Pay-by-check: At the inception of the relationship and each quarter thereafter, we will issue you an invoice for our services and you will pay us by check or wire transfer upon receipt of the invoice date.

How often do we assess our fees (or bills clients)?

Fees charged for Arthur Karafin's services are payable quarterly and are charged at the beginning of each quarter based on the market value of the client account as of the close of business year end.

Will you pay any other fees in connection with the management of your account?

Yes. Our investment management fees payable to us do not include all the fees you will pay when we purchase or sell securities for your account(s). Custody fees will vary depending on the custodian. All brokerage charges and related transactions costs are charged to the account as they occur. All fees paid to us for portfolio management services are separate from the fees and expenses borne by any mutual funds or limited partnerships, in which client assets may be invested, including funds or partnerships advised by an affiliate of ours. Although clients would not bear any sales load for any affiliated funds, they may be charged a sales load for any unaffiliated funds.

Provided below is a comprehensive list of fees or expenses you may pay directly to third parties for any securities purchased, sold, or held in your account(s) under our management. They are charged by the broker/custodian. We do not receive, directly or indirectly, any of these fees charged to you. They are paid to your broker, custodian or the mutual fund or other investment you hold. These fees may include, but are not limited to:

- Brokerage commissions;
- Transaction fees;
- Exchange fees;
- Regulatory fees;
- Advisory fees and administrative fees charged by mutual funds, exchange traded funds, private funds or private equity vehicles;
- Custodial fees;
- Deferred sales charges on mutual funds or annuities;
- Odd-lot differentials;
- Transfer taxes;
- Wire transfer and electronic fund processing fees;
- Legal fees; and
- Commissions or mark-ups/mark-downs on security transactions.

Please refer to Item 12 of this brochure which discusses our brokerage practices in greater detail.

Other Fees Related to Wrap Programs

For most Wrap Clients the client pays a single all-inclusive fee to the Wrap Program Sponsor that covers investment management fees, costs of brokerage transactions and custody fees services, but is exclusive of extraordinary exchange fees, transfer taxes and other fees mandated by law. In most

cases the Sponsor is affiliated with, or dually registered as, a broker-dealer who provides the clients with brokerage execution services.

Depending on the type of program, you may either enter into an investment advisory agreement with the Sponsor (in this case the Sponsor would enter into a investment management agreement with AKIA); or, you enter into an advisory agreement directly with AKIA, and be required by the Sponsor to direct brokerage back to the Sponsor or its affiliate to the extent practicable.

If your advisory agreement is with the Sponsor, AKIA will be compensated directly from the sponsor. If your advisory agreement is with AKIA, AKIA will provide an invoice for its investment management services and brokerage fees and expenses would be charged separately from the AKIA investment management fee.

Refunds for Terminated Accounts

This termination policy is applicable to all investment accounts within AKIA. Advisory services may be terminated at the written request of either the client or AKIA. If services are terminated during the quarter, fees will either: (1) be charged based on the number of days in the quarter the account was managed prior to termination or (2) be refunded, prorated for the number of days left in the quarter, if fees are billed in advance. You may terminate AKIA services without penalty within five (5) days after entering into the arrangement and at any time thereafter upon ten (10) days written notice.

Compensation for the Sale of Securities or Other Investment Products

We do not have or employ any "employee" that receives, either directly or indirectly, any compensation from the sale of securities or other investment products that are purchased or sold for your account. This includes asset-based sales charges or service fees from the sale of mutual funds. As a result, we are a "fee-only" investment adviser. We do not have any potential conflicts of interest that relate to any additional (and undisclosed) compensation from you or your assets that we manage other than those listed in this document.

ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Does AKIA charge performance-based fees or have a supervised person who manages an account that pays such fees?

We do not charge performance-based fees or have a supervised person who manages an account that pays such fees.

ITEM 7. TYPES OF CLIENTS***Describe the types of advisory clients.***

We provide investment management services to the following types of accounts: high-net-worth individuals and families, endowments, foundations, other charitable organizations, pension and profit sharing plans, corporations, individual retirement plans, trusts, estates, and other taxable individual plans.

ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS***AKIA's Methods of Analysis and Investment Strategies*****Equity Investment Strategy**

AKIA's core capabilities are the construction of large-to-mid capitalization primarily domestic equity portfolios and investment grade primarily domestic fixed income portfolios utilizing individual securities. The equity portion of a client's portfolio would typically contain 15-60 individual stock holdings. Our Core Equity Philosophy is described below:

- We are active managers who focus on high quality stocks, employing a bottom-up approach.
- We employ independent proprietary research to discover unrecognized sources of value.
- We focus on companies with a demonstrable competitive advantage to enhance long-term opportunities and maximize returns.
- We emphasize high-quality companies with strong cash flows, modest capital expenditures and low historical and relative valuations to reduce fundamental risk and avoid significant loss.
- We identify promising sectors that may offer above-average opportunities and diversification benefits.

Equity Selection Process**Step 1**

Narrowing the field from thousands of possibilities to a portfolio of stocks representing superior investment potential requires intensive research and a disciplined process. AKIA draws from a broad universe of approximately 2,000 companies with equity market capitalizations greater than \$50.0 million including non-US domiciled global companies (ADR's).

Step 2

With the goal of establishing the dynamic AKIA Investment Universe comprised of approximately

100-150 high quality companies exhibiting a durable competitive advantage at attractive valuations while producing sizable cash flows, AKIA employs a number of quantitative and qualitative protocols. AKIA portfolio managers discuss and determine which of the remaining companies warrant further examination for consideration as a buy candidate for client portfolios.

Step 3

AKIA portfolio managers perform intensive fundamental and valuation work on selected companies under consideration for portfolio purchases. AKIA focuses on determining the sustainability of revenue and earnings growth over the long-run, while examining margin trends and their impact on company cash flows. We prefer companies that have recently suffered poor price performance and seek to determine if any fundamental changes have occurred in the operating model and whether or not those changes are cyclical or secular in nature.

Step 4

Upon completion of due diligence, AKIA portfolio managers discuss the risks and rewards of each security considered and makes a final investment decision. Our portfolio managers assume responsibility for understanding the dynamics of each company selected for our portfolios and how the operating model of each company serves our clients' unique investment goals. AKIA equity portfolios will consist of 15-60 securities, depending on the size of the account.

Equity Sell Discipline

Stocks can become sale candidates based on a combination of factors.

Fundamental Factors include:

- Competitive position deteriorates
- Profitability is threatened by unfavorable developments in the company or industry, permanently affecting the company's ability to earn high returns and generate cash flow
- Concerns develop regarding the quality and stability of management

Quantitative Factors include:

- Valuation measures become unattractive as a stock becomes expensive relative to corporate growth rate
- Prospective corporate profitability and cash generation no longer justify the present valuation

Other Factors Include:

- Overweighting in portfolio – Risk Management
- A clearly superior investment alternative exists

Fixed Income Investment Strategy

We seek to maximize total return and minimize risk through:

- An investment strategy customized to goals, needs and risk preferences
- A conservatively managed risk profile
- Tax sensitive management

We review and tailor portfolios based on client guidelines, objectives and preferences for the following (if applicable):

- Tax Status
- Income Needs
- Time Horizon
- Liquidity Needs
- Quality Constraints
- Special Considerations

Based on these inputs an investment strategy is constructed addressing:

- Portfolio Maturity
- Option Adjusted Duration
- Term Structure
- Sector and Industry Weighting

Balanced Investment Strategy

We believe that the foundation of any balanced investment plan begins and ends with the synchronization of the client's objectives and preferences with the overall asset allocation. Each client's time horizon, risk tolerance, asset base, investment objectives and tax position are unique to them. The structure of their portfolios should reflect that and should consist of asset classes with returns that are relatively uncorrelated to each other. Asset allocation is a dynamic process that must adapt as client circumstances and market conditions change.

Guidelines and a framework for strategic and tactical asset allocation ranges are created for the following strategies:

- All Equity
- Balanced Growth
- Balanced Growth & Income
- Balanced Income
- All Fixed Income

Risk of Loss

All investments in securities include a risk of loss of the principal invested amount and any profits that have not been realized. There is a risk that you could lose all or a portion of your investment in any of the above-mentioned strategies. An investment in a strategy is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Financial markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. Although we do our best to manage and mitigate the risks, there may be some risks that we cannot control. We will do our very best in the management of your assets; however, we cannot guarantee any level of performance or that you will not experience a loss of your account assets. Provided below is a description of the various different kinds of risks inherent in the strategies we offer.

Equity and General Market Risk

Each equity strategy may invest in common stock. Common stock represents an equity (ownership) interest in a company, and usually possesses voting rights and earns dividends. Dividends on common stock are not fixed but are declared at the discretion of the issuer. Common stock generally represents the riskiest investment in a company. In addition, common stock generally has the greatest appreciation and depreciation potential because increases and decreases in earnings are usually reflected in a company's stock price. The fundamental risk of investing in common and preferred stock is the risk that the value of the stock might decrease. Stock values fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions. Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than preferred stocks, fixed income and money market investments. The market value of all securities, including common and preferred stocks, is based upon the market's perception of value and not necessarily the book value of an issuer or other objective measures of a company's worth. If you invest in an equity strategy, you should be willing to accept the risks of the stock market and should consider an investment in the strategy only as a part of your overall investment portfolio. Other general risks include:

- The market value of securities in which a strategy invests is based upon the market's perception of value and is not necessarily an objective measure of the securities' value.
- The market may not recognize what we believe to be the true value or growth potential of the stocks held by a strategy.
- The earnings of the companies in which a strategy invests will not continue to grow at expected rates, thus causing the price of the underlying stocks to decline.
- The smaller a company's market capitalization, the greater the potential for price fluctuations and volatility of its stock due to lower trading volume for the stock, less publicly available information about the company and less liquidity in the market for the stock.
- The potential for price fluctuations in the stock of a medium capitalization company may be greater than that of a large capitalization company.
- Our judgment as to the growth potential or value of a stock may prove to be wrong.
- A decline in investor demand for the stocks held by a strategy also may adversely affect the value of the securities.

Value Company Risk

Value investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced. The determination that a stock is undervalued is subjective; the market may not agree, and a stock's price may not rise to what we believe is its full value. If the market does not consider the stock to be undervalued then the value of a strategy's holdings may decline, even if stock prices generally are rising. The value of a strategy may also decrease in response to the activities and financial prospects of an individual company.

Growth Company Risk

An investment in growth stocks may be susceptible to rapid price swings, especially during periods of economic uncertainty. Growth stocks typically have little or no dividend income to cushion the effect of adverse market conditions and may be particularly volatile in the event of earnings disappointments or other financial difficulties experienced by the issuer. Securities of growth companies can be more sensitive to the company's earnings and more volatile than the market in general.

Medium Capitalization Company Risk

Medium Capitalization company stocks may have greater fluctuations in price than the stocks of large companies. Further, stocks of mid-sized companies could be more difficult to liquidate during market downturns compared to larger, more widely traded companies. Medium Capitalization companies may have limited product lines or resources and may be dependent upon a particular market niche.

Smaller Company Risk

If a strategy invests in smaller companies, an investment in that strategy may have the following additional risks:

- Analysts and other investors typically follow these companies less actively and therefore information about these companies is not always readily available;
- Securities of many smaller companies are traded in the over-the-counter markets or on a regional securities exchange potentially making them thinly traded, less liquid and their prices more volatile than the prices of the securities of larger companies;
- Changes in the value of smaller company stocks may not mirror the fluctuation of the general market; and
- More limited product lines, markets and financial resources make these companies more susceptible to economic or market setbacks.

For these and other reasons, the prices of smaller capitalization securities can fluctuate more significantly than the securities of larger companies. The smaller the company, the greater effect these risks may have on that company's operations and performance. As a result, an investment in a strategy that invests in smaller capitalization securities may exhibit a higher degree of volatility than the general domestic securities market.

Foreign Securities/Emerging Market Risk

If a strategy invests in foreign securities and ADRs, an investment in that strategy may have the following additional risks:

- Foreign securities may be subject to greater fluctuations in price than securities of U.S. companies because foreign markets may be smaller and less liquid than U.S. markets;
- Changes in foreign tax laws, exchange controls, investment regulations and policies on nationalization and expropriation as well as political instability may affect the operations of foreign companies and the value of their securities;
- Fluctuations in currency exchange rates and currency transfer restitution may adversely affect the value of the strategy's investments in foreign securities, which are denominated or quoted in currencies other than the U.S. dollar;
- Foreign securities and their issuers are not subject to the same degree of regulation as U.S. issuers regarding information disclosure, insider trading and market manipulation. There may be less publicly available information on foreign companies and foreign companies may not be subject to uniform accounting, auditing, and financial standards as are U.S. companies;
- Foreign securities registration, custody and settlements may be subject to delays or other operational and administrative problems;
- Certain foreign brokerage commissions and custody fees may be higher than those in the United States;
- Dividends payable on the foreign securities contained in the strategy's portfolio may be subject to foreign withholding taxes, thus reducing the income available for distribution to the strategy's shareholders; and
- Prices for stock or ADRs may fall over short or extended periods of time.

If a strategy invests in emerging markets, an investment in that strategy may have the following additional risks:

- Information about the companies in emerging markets is not always readily available;
- Stocks of companies traded in emerging markets may be less liquid and the prices of these stocks may be more volatile than the prices of the stocks in more established markets;
- Greater political and economic uncertainties exist in emerging markets than in developed foreign markets;
- The securities markets and legal systems in emerging markets may not be well developed and may not provide the protections and advantages of the markets and systems available in more developed countries;
- Very high inflation rates may exist in emerging markets and could negatively impact a country's economy and securities markets;

- Emerging markets may impose restrictions on the strategy's ability to repatriate investment income or capital and thus, may adversely affect the operations of the strategy;
- Certain emerging markets impose constraints on currency exchange and some currencies in emerging markets may have been devalued significantly against the U.S. dollar;
- Governments of some emerging markets exercise substantial influence over the private sector and may own or control many companies. As such, governmental actions could have a significant effect on economic conditions in emerging markets, which, in turn, could affect the value of the strategy's investments; and
- Emerging markets may be subject to less government supervision and regulation of business and industry practices, stock exchanges, brokers and listed companies.

ADR investments may subject a strategy to the same risks as direct investments in foreign companies. For these and other reasons, the prices of securities in emerging markets can fluctuate more significantly than the prices of securities of companies in developed countries. The less developed the country, the greater effect these risks may have on your investment in a strategy that invests in these securities, and as a result, an investment in that strategy may exhibit a higher degree of volatility than either the general domestic securities market or the securities markets of developed foreign countries.

REIT and Real Estate Risk

The value of a strategy's investments in REITs may change in response to changes in the real estate market. A strategy's investments in REITs may subject it to the following additional risks:

- Declines in the value of real estate;
- Changes in interest rates;
- Lack of available mortgage funds or other limits on obtaining capital and financing;
- Overbuilding;
- Extended vacancies of properties;
- Increases in property taxes and operating expenses;
- Changes in zoning laws and regulations;
- Casualty or condemnation losses; and
- Tax consequences of the failure of a REIT to comply with tax law requirements.

A strategy will bear a proportionate share of the REIT's on-going operating fees and expenses, which may include management, operating and administrative expenses.

Convertible Securities Risk

A convertible security is a bond, debenture, note, preferred stock, right, warrant or other security that may be converted into or exchanged for a prescribed amount of common stock or other security of the same or a different issuer or cash within a particular period of time at a specified price or formula. A convertible security generally entitles the holder to receive interest paid or accrued on debt securities or the dividend paid on preferred stock until the convertible security matures or is

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redeemed, converted or exchanged. Before conversion, convertible securities generally have characteristics similar to both debt and equity securities. Convertible securities ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities generally rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible proportionate securities. Convertible securities generally do not participate directly in any dividend increases or decreases of the underlying securities although the market prices of convertible securities may be affected by any dividend changes or other changes in the underlying securities. A strategy's investments in convertible securities may subject it to the risks that prevailing interest rates, issuer credit quality and any call provisions may affect the value of the strategy's convertible securities. Rights and warrants entitle the holder to buy equity securities at a specific price for a specific period of time. Rights typically have a substantially shorter term than do warrants. Rights and warrants may be considered more speculative and less liquid than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities nor do they represent any rights in the assets of the issuing company. Rights and warrants may lack a secondary market. The value of convertible securities tends to decline as interest rates rise and, because of the conversion feature, tends to vary with fluctuations in the market value of the underlying securities. A strategy's investments in equity may subject the strategy to volatility and the following risks:

- Prices for the stock may fall over short or extended periods of time;
- Cyclical movements of the equity market may cause the value of the strategy's securities to fluctuate drastically from day to day; and
- Individual companies may report poor results or be negatively affected by industry and or economic trends and developments.

Derivatives Risk

Derivatives are financial instruments that have a value which depends upon, or is derived from, a reference asset, such as one or more underlying securities, pools of securities, options, futures, indexes or currencies. Derivatives may result in investment exposures that are greater than their cost would suggest; in other words, a small investment in a derivative may have a large impact on a strategy's performance. The successful use of derivatives generally depends on the manager's ability to predict market movements.

A strategy may use derivatives in various ways. It may use derivatives as a substitute for taking a position in the reference asset or to gain exposure to certain asset classes; under such circumstances, the derivatives may have economic characteristics similar to those of the reference asset, and the strategy's investment in the derivatives may be applied toward meeting a requirement to invest a certain percentage of its assets in instruments with such characteristics. A strategy may use derivatives to hedge (or reduce) its exposure to a portfolio asset or risk. A strategy may use derivatives for leverage. A strategy may also use derivatives to manage cash.

Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, interest rate risk, credit risk and general market risk. A strategy's use of derivatives may entail risks greater than, or possibly different from, such risks and other principal risks to which the strategy is

exposed, as described below. Certain of the different risks to which a strategy might be exposed due to its use of derivatives include the following:

- Risk of default by the other party to the derivative transactions;
- Risk that the transactions may result in losses that partially or completely offset gains in positions;
- Risk that the derivative transactions may not be liquid; and
- Risk that derivative instruments may be mispriced or improperly valued and that changes in the value of the derivatives may not correlate perfectly with the underlying asset or security.

Management Risk

Our strategies are actively managed and our performance in these strategies may reflect our ability to make decisions which are suited to achieving a strategy's investment objective. As a result, a strategy may not meet its investment objective based on the success or failure of the portfolio managers to implement investment strategies and could underperform other similar strategies with comparable investment objectives managed by other advisers.

Environmental Policy Risk

Environmental policy risk is the risk that the strategy could underperform compared to similar strategies that do not have such a policy. The strategy may forego opportunities to buy certain securities when it might otherwise be advantageous to do so, or may sell securities for environmental reasons when it might be otherwise disadvantageous for it to do so. The strategy also focuses on particular environmental investment themes, which presents increased risk over a more diversified portfolio by focusing investment choices within specific sectors that may or may not perform as well as other industry sectors.

Portfolio Turnover Risk

High portfolio turnover involves correspondingly greater expenses to a strategy, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities.

Debt/Fixed Income Securities Risk

The value of your investment in a fixed income strategy may change in response to changes in interest rates. An increase in interest rates typically causes a fall in the value of the debt securities in which the strategy invests. The longer the duration of a debt security, the more its value typically falls in response to an increase in interest rates. The value of your investment in a fixed income strategy may change in response to the credit ratings of the strategy's portfolio of debt securities. The degree

of risk for a particular security may be reflected in its credit rating. Generally, investment risk and price volatility increase as a security's credit rating declines. The financial condition of an issuer of a debt security held by a strategy may cause it to default or become unable to pay interest or principal due on the security. A strategy cannot collect interest and principal payments on a debt security if the issuer defaults.

Prepayment risks may occur when interest rates decline and issuers of debt securities experience acceleration in prepayments. The acceleration can shorten the maturity of the debt security and force the strategy to invest in securities with lower interest rates, reducing the strategy's return. With respect to extension risk, issuers may decrease prepayments of principal when interest rates increase, extending the maturity of the debt security and causing the value of the security to decline. Distressed debt securities involve greater risk of default or downgrade and are more volatile than investment grade securities. Distressed debt securities may also be less liquid than higher quality debt securities.

Non-Investment Grade Securities Risk

Securities rated below investment grade, i.e., BA or BB and lower ("junk bonds"), are subject to greater risks of loss of a client's money than higher rated securities. Compared with issuers of investment grade fixed income securities, junk bonds are more likely to encounter financial difficulties and to be materially affected by these difficulties.

ETF Risk

Investments in ETFs (which may, in turn, invest in equities, bonds, and other financial vehicles) may involve duplication of certain fees and expenses. By investing in an ETF, a strategy becomes a shareholder of that ETF. As a result, investors in a strategy that invests in ETFs are indirectly subject to the fees and expenses of the individual ETFs. These fees and expenses are in addition to the fees and expenses that investors in the strategy directly bear in connection with the strategy's own operations. If the ETF fails to achieve its investment objective, the strategy's investment in the ETF may adversely affect its performance. In addition, because ETFs are listed on national stock exchanges and are traded like stocks listed on an exchange, the following may occur:

- The strategy may acquire ETF shares at a discount or premium to their NAV, and
- The strategy may incur greater expenses since ETFs are subject to brokerage and other trading costs.

Finally, because the value of ETF shares depends on the demand in the market, we may not be able to liquidate the ETF holdings at the most optimal time, adversely affecting the strategy's performance.

Private Placement Risk

The strategy may invest in privately issued securities of domestic common and preferred stock, convertible debt securities, ADRs, REITs and ETFs, including those which may be resold only in accordance with Rule 144A under the 1933 Act. Privately issued securities are restricted securities

that are not publicly traded. Accordingly, the market liquidity for specific privately issued securities may vary. Delay or difficulty in selling such securities may result in a loss to the strategy.

Non-Diversification Risk

If a strategy is “non-diversified,” its investments are not required to meet certain diversification requirements under Federal law. A “non-diversified” strategy is permitted to invest a greater percentage of its assets in the securities of a single issuer than a diversified strategy. Thus, the strategy may have fewer holdings than other strategies. As a result, a decline in the value of those investments would cause the strategy’s overall value to decline to a greater degree than if the strategy held a more diversified portfolio.

Mortgage and Asset-Backed Securities Risk

The strategy may invest in mortgage- and asset-backed securities, which represent “pools” of mortgages or other assets, including consumer loans or receivables held in trust. In a period of rising interest rates, these securities may exhibit additional volatility.

Municipal Securities Risk

If a strategy invests in municipal fixed income securities, economic or political factors may adversely affect issuers of the municipal securities in which that strategy invests. Adverse economic or political factors will affect a strategy’s value more than if that strategy invested in more geographically diverse investments. As a result, the value of a strategy’s assets may fluctuate more widely than the value of a strategy investing in securities relating to a number of different states.

In addition to the state’s general obligations, a strategy may invest a significant portion of its assets in bonds that are rated according to the issuer’s individual creditworthiness, such as bonds of local governments and public authorities. While local governments depend principally on their own revenue sources, they could experience budget shortfalls due to cutbacks in state aid. Certain strategy holdings may not rely on any government for money to service their debt. Bonds issued by governmental authorities may depend wholly on revenues generated by the project they financed or on other dedicated revenue streams. The credit quality of these “revenue” bonds may vary from that of the state’s general obligations. There can be no assurance that general obligation bonds or the securities of any political subdivision, authority or corporation owned by a strategy will be rated in any category or will not be downgraded by an NRSRO.

Short Selling

Short selling involves selling securities that are not owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows a portfolio to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the

borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes a portfolio to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

Strategic Risk

Strategic risk means the risk that results from adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, regulatory environment, business strategy execution and/or other inherent risks of the business, including reputational risk. Although all companies face a similar risk to a greater or lesser extent, strategic risk is particularly acute in the financial services industry due to changing customer and regulatory environments and the intense competition within the industry.

Financial Services Counterparty Risk

The financial services industry is highly interconnected, and financial services companies have exposure to many different industries, issuers and counterparties, and often execute transactions with counterparties that also operate in the financial services industry, including brokers and dealers, commercial banks, investment banks, hedge funds and other investment funds and other institutions. Many of these transactions expose a financial services company to credit risk in the event of default of the counterparty. In addition, with respect to secured transactions, a financial services company's credit risk may be exacerbated when the collateral held by the company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it. A financial services company may also have exposure to other issuers in the form of holdings in unsecured debt instruments, derivative transactions and stock investments of such issuers.

Financial Services Regulatory Risk

The financial services industry is subject to complex and extensive regulation by numerous primary Federal regulators, including: the Office of the Comptroller of the Currency ("OCC"), the Federal Reserve Board ("FRB"), the Federal Deposit and Insurance Corporation ("FDIC") and the Office of Thrift Supervision ("OTS"). State chartered institutions also are subject to regulation and supervision by state bank regulatory agencies. Further, all federally insured depository institutions are subject to certain oversight and supervision by the FDIC as the insurer of deposit accounts. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities. Moreover, the laws, rules and regulations comprising such regulatory framework are constantly changing, as are the interpretation and enforcement of existing laws, rules and regulations. The regulatory framework governing the financial services industry is currently under close Congressional and regulatory agency scrutiny and is the subject of pending and contemplated legislation and

rulemaking initiatives that could drastically alter the manner in which financial services companies operate and are structured.

Investment in the Banking Industry

The results of operations of banking institutions may be materially affected by general economic conditions, changes in the level of interest rates, national and local cycles in real estate and the monetary and fiscal policies of the Federal government. In addition, over the last couple of years, the world's financial markets have experienced extraordinary market conditions, including the failure of the credit markets to function and extreme volatility in the securities market. As a result, U.S. and foreign financial regulators undertook unprecedented regulatory action and continue to consider and implement other measures to stabilize U.S. and global financial markets. While the U.S. financial market appears to have reached a level of stability, there continues to be a high level of troubled depository institutions and therefore likely consolidation in the financial services industry and uncertainty in other markets that affect the U.S. market.

Other Financial Services Companies

Many of the investment considerations discussed in connection with banks, mortgage brokers and insurance companies also apply to other financial services companies. These companies are all subject to extensive regulation, rapid business changes and volatile performance dependent on the availability and cost of capital, prevailing interest rates and significant competition. General economic conditions significantly affect these companies. Credit and other losses resulting from the financial difficulty of borrowers or other third parties have a potentially adverse effect on companies in this industry.

ITEM 9. DISCIPLINARY INFORMATION

Disclose the material facts about any legal or disciplinary event that is material to a client's (or prospective client's) evaluation of the integrity of the adviser or its management personnel. (Disciplinary events that are presumptively material if they occurred in the previous 10 years).

We do not have any legal, financial or other "disciplinary" items to report to you. We are obligated to disclose any disciplinary events that would be material to you when evaluating us to initiate a Client/Adviser relationship or to continue a Client/Adviser relationship with us.

This statement applies to our firm and every employee.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Describe any material relationships or arrangements AKIA (or any of its management persons) has with related financial industry participants, any material conflicts of interest that these relationships or arrangements create, and how we address the conflicts.

Relationships with Other Investment Advisers

Although AKIA is committed to acting in the best interests of our clients, in some situations there may be conflict of interest between the Firm's interests and a client's interests or there may be conflicts in the interests of multiple clients. Many of these conflicts of interest are inherent in operating an investment advisory business. AKIA has adopted policies and procedures that it believes are reasonably designed to mitigate these conflicts of interest.

AKIA has not entered into any arrangements that are material to its advisory business. However, under appropriate circumstances, AKIA may invest any portion or all of a client account assets in any mutual fund, including any Fund that LMIC or an affiliate of LMIC sponsors, advises or distributes. AKIA may charge a fee on these assets, (except for Individual Retirement Accounts invested in affiliated mutual funds) as more fully discussed in Item 5 above. Anytime AKIA invests any portion or all of a client account assets in any Fund, the client will bear a proportionate share of the fees and expenses of the Fund, including advisory fees or management fees paid to the investment advisers or sponsors of such products, which may in some circumstances be LMIC or other affiliates of AKIA/LMIC. A description of such fees and expenses that will be paid by clients that invest in Funds is contained in the prospectuses for the Funds.

Although we will select other investment adviser's mutual funds for our clients, it is important to note that we do not receive compensation, either directly or indirectly from those advisers that would create a material conflict of interest. Neither we nor any of our executives have any undisclosed arrangements, either oral or in writing, where we are paid cash or receive some economic benefit to anyone other than a client in connection with giving advice to clients.

Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for additional information regarding conflicts of interest that arise as a result of the Firm's investment advisory activities.

ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Briefly describe AKIA's code of ethics.

AKIA is committed to maintaining the highest standards of professional conduct and ethics in order to discharge our legal obligations to our clients, to protect our business reputation, and to avoid even the appearance of impropriety in our investment activities on behalf of clients. As a registered investment adviser, we are obligated to render to our clients on a professional basis unbiased and continuous advice regarding their investments. Our fiduciary relationship with our clients requires that we act with undivided loyalty, fairness, and good faith and without any regard to personal interest or profit.

AKIA employees are subject to the LMIC Code of Ethics. LMIC's Code of Ethics includes: (1) standards of business conduct for LMIC's directors and employees, including employees of AKIA; (2) compliance with applicable federal securities laws; (3) reporting by directors and employees, and review by LMIC's Compliance Department, of all personal securities transactions on a periodic basis; (4) provision to, and acknowledgment of acceptance of, by directors and employees of a copy of the code of ethics and any amendments; (5) reporting by directors and employees of any violations of the code of ethics promptly to the Chief Compliance Officer. Records of all trading by its investment advisory representatives are maintained. The Code also includes provisions for the acceptance of gifts by employees. AKIA's employees are also subject to LMIC's policy manual, which includes policies that govern conflicts related to political contributions, service as a director of a public company and other outside business activities.

Employees must disclose to the LMIC Compliance Department all potential conflicts of interest, including those in which they may have been placed inadvertently due to business or personal relationships with clients, prospects, vendors, other employees, or other third parties. In addition, any employee who is aware of a material transaction or relationship that could reasonably be expected to give rise to a conflict of interest or perceived conflict of interest should discuss the matter promptly with the LMIC Compliance Department.

We will provide you with a copy of our complete Code of Ethics upon request. You may request a complete copy of our Code of Ethics by contacting us at the address, telephone number, or email on the cover page of this Part 2 section of our Form ADV.

AKIA's Participation or Interest in Client Transactions

AKIA anticipates that, in appropriate circumstances and consistent with client investment objectives, we or a related person, may recommend the purchase or sale of securities in which we, or one of our affiliates, employees or clients, directly or indirectly, has a financial interest. This may include the following circumstances:

- AKIA, its employees, or one of its affiliates may invest in a mutual fund or other pooled investment vehicle that clients invest in.
- We or one of our affiliates may be paid an investment management fee or performance fee for managing by a mutual fund or pooled investment vehicle that clients invest in. (see Item 6, "Performance-Based Fees and Side-By-Side Management").
- We or one of our affiliates, employees or clients may sell securities at the same time that AKIA is recommending the security to other clients
- We or one of our affiliates, employees or clients may buy securities at the same time we are recommending that other clients sell the security.

AKIA's Policy for Personal Trading

Since we recognize that our employees should have an opportunity to develop investment programs for themselves and their families, our Code of Ethics does not prohibit personal trading by employees. The Code sets forth standards of conduct expected of employees and in part addresses conflicts that arise from personal trading by employees. It provides policies and procedures to ensure that employees conduct their personal securities transactions in a manner that complies with the securities laws, rules and regulations and that does not raise the appearance of impropriety. In addition, it sets forth controls designed to avoid actual or potential conflicts of interest between clients and our employees. Controls in place include blackout periods for certain employees, pre-clearance of employee trades, holdings disclosure and other trading restrictions. The Code provides for periodic securities holdings reports and periodic transactions reports from all access persons that meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940. The Code also prohibits employees from revealing information relating to the investment intentions, activities or portfolios of LMIC and AKIA clients, except to persons whose responsibilities require knowledge of the information.

Does AKIA or a related person (e.g., advisory personnel) invest in or is AKIA or a related person permitted to invest in the same securities that it recommends to clients, or in related securities such as options or other derivatives?

AKIA may buy or sell securities for its own account or managed accounts owned by employees of the Firm that are also recommended to unaffiliated clients, including selling securities that it may recommend to purchase for clients and vice versa. Employee trades for AKIA are generally not aggregated with client transactions.

Other Conflicts of Interest Related to Personal Trading

A personal conflict of interest occurs when an employee's private interest improperly interferes with the interests of clients and/or the firm. Specifically, it is possible that when proprietary accounts or employee managed accounts trade in the same securities as the Firm trades for its clients, proprietary

or employee accounts may receive an execution price that is more favorable than a LMIC or AKIA client. As a general requirement of the Code, employees must have prior approval to effect each securities transaction in which an employee has or acquires a beneficial interest to ensure that client interests come before the interests of the employee. Generally, employees cannot buy or sell securities if a client trade is pending execution. Exceptions to these policies are granted where (i) the accounts are managed on a discretionary basis by AKIA or another investment adviser; or (ii) the employee is buying or selling a certain type of security or where trades are under a certain size where the transaction would not affect the market of execution price for client trades. Employee and Proprietary account transactions that are not subject to the firm's pre-clearance requirements are reviewed periodically against unaffiliated client accounts to determine whether any personal trading abuses have occurred.

ITEM 12. BROKERAGE PRACTICES

AKIA's standard Investment Management Agreement provides for clients to designate an executing broker for their account. AKIA's services to clients do not include the independent selection of brokerage firms or the negotiation of commission rates for separate account clients. AKIA requires each such client to designate the brokerage firm through which account transactions will be effected and AKIA does not negotiate commission rates as part of the services provided by AKIA. Any discounted commission rate available to the client will be dependent on the client's ability to negotiate such discount. However, with respect to the arrangements with the particular registered representatives at Morgan Stanley Smith Barney referenced above, AKIA clients often receive commission rates that are 50% below the standard retail rate for each firm. Clients are still encouraged to negotiate even further discounted commission rates with these brokers. By designating that AKIA execute trades through a particular broker-dealer the client may not receive the best execution available, and will most likely not receive the best execution available as compared to other LMIC client trades. AKIA encourages all clients to meet with the brokerage firms and discuss their normal trade activity, including the number of shares and dollar amounts. The broker can then indicate the commission amounts the client can expect to pay.

AKIA does not aggregate client trades even when there is an opportunity to do so. In addition, clients do not participate in aggregated trades with other LMIC client trades that are not part of AKIA. As such you will not benefit from lower costs or better execution prices that aggregating trades may provide. This may cost you more money.

In selecting an executing broker clients are encouraged to consider that, among other factors:

- Brokerage arrangements other than those directed by the client may exist that would provide the client more favorable execution or additional brokerage related services;
- Other than in connection with its monitoring of trade execution data for client transactions, AKIA has no responsibility to determine or assess the extent or value of services provided to clients by their respective executing brokers, nor does AKIA generally have access to such information; and
- The technological capabilities and limitations of a client's executing broker (*e.g.*, a broker's inability to receive orders electronically) may affect AKIA's ability to relay

trading instructions to such broker as efficiently as it is able to relay instructions to brokers that have more sophisticated order systems.

Not all advisers require directed brokerage. Clients should periodically review the terms of their brokerage agreement to ensure that such arrangements meet the client's needs and are competitive in the market in relation to the services offered. In designating an executing broker, clients should also take into account services other than trade execution they require, such as account service, investment manager due diligence and selection recommendations, asset allocation advice, financial or estate planning, or tax advice.

Clients also should be aware that there are certain discount brokerage options available that may cost less than traditional brokers but include only limited customer service options.

Types of Research Products and Services Received

AKIA does not itself direct client brokerage in exchange for third party research. Many AKIA clients have chosen to direct AKIA to trade through the same brokers. In some cases, these brokers have chosen to provide AKIA with access to their research platforms. In all such cases, the third party research AKIA receives as a result of the brokerage relationships established by its clients will be used, if at all, for the benefit of AKIA clients generally and not specifically for the clients whose brokerage relationships resulted in AKIA being provided access to the research. The types of research products and services received include:

- Advice as to the value of securities, the advisability of investing in, purchasing or selling securities;
- Meetings with management representatives of issuers and other analysts;
- Macro-economic research and information, including weekly reports and quarterly conference calls;
- Bond analytics on fixed income portfolios, including duration, yield to maturity, and convexity;
- Fundamental analysis of particular companies or securities;
- Equity research on individual companies and/or sectors;
- Credit ratings, research, and risk analysis on municipals;
- Technical research; and
- Other relevant materials affecting investment decisions.

Client Referrals

It is our long-standing practice not to allocate commissions to any person or company on the basis of business they might direct to us. It is against firm policy for any employee to suggest to any third party that in return for referring business to us, we will direct brokerage commissions to that third party or its affiliates. We will honor written directed brokerage instructions from a client provided

such instructions are consistent with applicable law. Under no circumstances may any of our employees enter into an arrangement with any financial institution, broker-dealer, prime broker, investment adviser or investment vehicle for the purpose of directing brokerage commissions in exchange for either the sale of our products or investing assets with us, including situations that give rise to indirect compensation such as “step outs” or similar arrangements.

This policy also does not prohibit directed brokerage arrangements whereby a client of ours has directed us to use a specific broker-dealer for a portion or all of that client’s transactions.

AKIA’s Practices When a Client Directs Brokerage

We will direct your securities transactions to the broker-dealer you, or if you participate in a Wrap Program, your Wrap Sponsor specifies.

Suggestion of Brokers

When requested to do so by a client or prospective client, AKIA will provide the names of unaffiliated brokers for the client to consider in designating an executing broker for its account. AKIA makes such suggestions on the basis of (i) the broker’s ability to meet certain objective trade execution and confirmation criteria, (ii) the broker having, in AKIA’s view, evidenced a consistent commitment to providing quality trade execution to AKIA clients, and (iii) whether the broker offers the account services sought by the client (*e.g.*, commission recapture). Such suggestions may include brokers that refer clients to AKIA or for which AKIA has a long-standing business relationship. As such, there is a potential conflict of interest between obtaining best execution for clients and AKIA receiving future referrals from such brokers. Based on the criteria listed above, AKIA likely will suggest either a particular registered representative at Morgan Stanley or a particular registered representative at Smith Barney for brokerage services. Notwithstanding any suggestions, AKIA does not independently select brokers for clients and it remains the client’s obligation to enter into a relationship and negotiate terms with their broker of choice. Any discounted commission rate available to the client in such circumstances will be dependent on the client’s ability to negotiate such discount. In these circumstances, AKIA clients will most likely pay higher commission rates and brokerage charges than other LMIC clients. With respect to their brokerage accounts, commission rates for AKIA client trades normally also include full custody services, including, for example, safekeeping of securities, recordkeeping, income collection and distribution, corporate actions, transaction and asset statements, trade confirmation, and tax information.

ITEM 13. REVIEW OF ACCOUNTS

AKIA Portfolio Managers Review of Clients' Accounts or Financial Plans

Client accounts are reviewed at least annually by the portfolio manager. Multiple accounts may be reviewed together as part of a larger client relationship. Each review involves monitoring each account for adherence to client imposed investment guidelines, preferences, including tax situation, and restrictions, as well as adherence to appropriate investment allocations.

On a daily basis, every order to buy or sell securities in client accounts is reviewed prior to entry to ensure that the order is consistent with client imposed guidelines and restrictions. All orders are reviewed upon execution to verify that orders were executed in accordance with the trading instructions.

Frequency of Reviews

The frequency and scope of the review for each account is based on a combination of the following factors: (i) the type of client; (ii) the nature of the client; (iii) the size and complexity of the relationship; (iv) the type of the client mandate; (v) the type of investment product(s) utilized; (vi) general market conditions and associated factors; (vii) specific client needs and objectives; (viii) turnover in investment management personnel; and (ix) change in client committee structure or management team.

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

Client Referrals

AKIA compensates certain persons for client referrals in the form of a portion of the fee you pay for our investment management services. These persons include AKIA affiliates other registered investment advisers, broker-dealers, brokers employed by other firms, financial planners, or other clients. If these referrals materialize into new clients, we will compensate the referring party for making the introduction. Compensation is generally based on a percentage of the client's annual management fee. The range of compensation has included a recurring payment of 20% of the client's annual management fee. The payment is made quarterly based on our billing cycle. Clients will not charged additional fees as a result of any AKIA referral arrangements. Investment management fees, however, are negotiable based on a number of factors and therefore your fee may be higher or lower than the fee paid by other clients.

AKIA will not compensate any persons or entities for referrals unless the referral arrangement complies with all provisions of Rule 206(4)-3 of the Investment Advisers Act of 1940, and the referred client has been provided with a copy of this Brochure and a separate disclosure document

that informs the client of the nature of such affiliate's affiliation with AKIA and details regarding the referring party's compensation arrangement with AKIA.

Other Compensation Arrangements

AKIA has not participated in any arrangement under which the adviser receives any economic benefit, including sales awards or prizes, from a person who is not a client for providing advisory services to clients.

ITEM 15. CUSTODY

How does AKIA have custody of client assets?

Although we do not maintain actual custody of any of our clients' assets, in many cases we have been given the authority by our clients to debit our clients' custodial accounts for management fees or to transfer money to another person's account. In these situations, under SEC regulations, we are deemed to have custody of client assets, even though the custodial bank maintains actual custody of those assets. We are also deemed to have custody over client assets if AKIA employees serve as Trustee or Executor of a client's account, or if our affiliate bank, LMIC&T, serves as Trustee or Executor of a client's accounts. When LMIC&T provides trustee services, generally, it will also act as custodian of client assets.

Receipt of Account Statements Directly From Your Custodian

You should carefully review the account statements you receive from your qualified custodian. Comparing statements will allow you to determine whether account transactions, including deductions to pay advisory fees, are proper.

ITEM 16. INVESTMENT DISCRETION

AKIA's standard investment advisory agreement grants the firm "discretionary authority" over client accounts. This authority authorizes AKIA to make purchase and sale decisions for client accounts or to select other advisers for the client.

Will AKIA allow clients to place limitations on this authority?

Yes. Clients may place limitations of AKIA's investment authority. For example, clients may ask AKIA not to invest in securities of particular investment classes, issuers, or sectors. Clients may ask AKIA not to invest in fixed income securities below a designated credit quality rating. Clients may place limitations with respect to a portfolio's weighted average maturity or duration, or asset allocation with respect to balanced portfolios. Clients may also ask AKIA not to sell certain securities clients may have previously invested in which.

Your portfolio manager will work with you to create an investment policy statement that will reflect your investment guidelines and objectives, and state any restrictions you wish to place on your account.

What risks to limitations pose for client performance?

Specific client investment restrictions may limit our ability to manage those assets like other similarly managed portfolios. This may impact the performance of the account relative to other accounts and the benchmark index.

ITEM 17. VOTING CLIENT SECURITIES***Does AKIA accept authority to vote client securities?***

No. AKIA's standard investment advisory agreement does not grant the firm proxy voting authority. AKIA has only two clients for which it votes proxies. In both cases it follows the following LMIC policy.

What is LMIC's policy with respect to voting proxies?

LMIC has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ("Advisers Act"). In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, LMIC will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than LMIC) regarding the voting of any securities owned by its clients.

For accounts where LMIC has appointed a sub-adviser to manage the client account, LMIC shall deliver any proxies it receives to the sub-adviser for its exercise of voting rights, unless such sub-

adviser expressly disclaims the voting of proxies. An account owner may direct LMIC to refrain from voting a specific security, and name themselves or another person to so vote, while LMIC retains voting authority over the other securities in the account.

With respect to shares over which LMIC has voting authority, LMIC will not decline to vote proxies except in extraordinary circumstances where LMIC believes that refraining from voting is in the client's best interests. Nor will LMIC accept direction from others with regard to the voting of proxies, although LMIC will take the investment guidelines of an account into consideration in deciding how to vote on a particular issue. LMIC may vote proxies related to the same security differently for different clients.

LMIC seeks to identify any material conflicts that may arise between the interests of LMIC and its clients. LMIC will maintain a log of significant client relationships that are issuers of publicly-traded securities that might become subject to a proxy vote. LMIC employees are to inform the Proxy Voting Committee or a member of LMIC's compliance group when an employee becomes aware of a conflict of interest that arises from that employee's personal relationships or in the conduct of LMIC's business. LMIC will consider a conflict to be material if it is significant enough to potentially influence or appear to influence LMIC's decision in the voting process.

Except for extraordinary circumstances, in any such instance, the material conflict will be resolved by the Proxy Voting Committee, voting in accordance with the previously established guidelines set forth by the Proxy Voting Committee. The Proxy Voting Committee may seek the advice or recommendation of an independent third party, in its sole discretion.

Voting Guidelines

The Proxy Voting Committee will meet annually to review and approve proxy voting guidelines. Proxies will not be voted without an analysis of the underlying issues involved. LMIC's proxy voting policy at all times shall be directed toward maximizing the value of the assets of managed accounts, for the benefit of the accounts' ultimate owners or beneficiaries. Any item on a proxy that would tend to inhibit the realization of maximum value shall receive a negative vote from LMIC. Examples of such items would be any activities that could be viewed as "poison pill" maneuvers. On other matters specific to a company, such as the election of directors, the appointment of auditors, granting of options, re-pricing of options, mergers and other material issues, a decision shall be made by the proxy voting vendor in accordance with the guidelines established by the LMIC Proxy Voting Committee, consistent with the policy of maximizing value.

Clients who request that their accounts be managed according to a socially responsible mandate will have proxies voted according to the values communicated in their investment policy statement.

Abstention

There are times when we may be unable to vote a proxy or may choose not to vote a proxy. Examples of these times include, but are not limited to:

- A proxy ballot was never received from the custodian,
- A meeting notice was received too late,

- The fees imposed to exercise the vote are high and outweigh the benefit of voting, or
- A proxy voting service is not offered by the custodian.

Voting Records & Client Notification

For clients of LMIC, a complete record and file of all votes cast, and where appropriate, the reason therefore, shall be maintained by LMIC with a third party voting service, Institutional Shareholder Services Inc. (ISS). A proxy log will be maintained, including the following data: issuer name, exchange ticker symbol of the issuer's shares to be voted, CUSIP number for the shares to be voted, a brief identification of the matter voted on, whether the matter was proposed by the issuer or by a shareholder of the issuer, whether a vote was cast on the matter, a record of how the vote was cast and whether the vote was cast for or against the recommendation for the issuer's management team. Clients may obtain information with regard to the manner in which their proxies were voted, as well as the more detailed policies and procedures upon which this summary is based by contacting LMIC at 100 International Drive, 5th Floor, Baltimore, Maryland, 21202, attention: Compliance Officer. In addition, when required by applicable banking or investment adviser statutes and rules, a description of these Policies and Procedures shall be provided to new clients prior to the inception of their account.

ITEM 18. FINANCIAL INFORMATION

We are required to disclose any material financial information about AKIA that would reasonably likely to impair the adviser's ability to meet contractual commitments to clients, any situations where a judgment or arbitration award was or may be sufficiently large that payment of it would create such a financial condition. In addition we are required to disclose whether we been the subject of a bankruptcy petition during the past ten years.

We do not have any material financial information to report to you. We do not foresee any situation that may lead to a financial condition as described above for which we would be required to report to you. AKIA has not been the subject of a bankruptcy petition during the past ten years.

While certain clients of AKIA have agreed to pay investment management in advance, we do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

ITEM 19. REQUIRED DISCLOSURES FOR STATE-REGISTERED ADVISERS

Because we are an SEC-registered adviser, not a State-Registered Adviser, we are not required to complete Item 19.

ADDITIONAL INFORMATION

AKIA believes the following information may be of interest and/or important for you to know about certain of its policies and practices.

TRADE ERROR CORRECTION POLICY

In the event of a trade error attributable to LMIC or AKIA, LMIC's general policy is to place the client in the position it would have been in absent the error unless otherwise directed by the client. When an error is identified prior to settlement, LMIC will normally move the trade to its error account. In such cases, the profit or loss resulting from the reversing transactions will be owned by LMIC.

PRIVACY NOTICE

AKIA is committed to keeping nonpublic personal information about our clients secure and confidential. This notice is intended to help you understand how we fulfill this commitment.

In the course of management of client accounts, we may collect a variety of personal information, including:

Information on applications and forms, via the telephone, and through our websites;
Information about transactions with us, our affiliates, or others (such as your purchases, sales, or account balances); and Information from consumer reporting agencies.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. When an account is opened, we must ask for names, addresses, dates of birth (if applicable), and other information. We must also request identifying documents such as drivers' licenses or passports.

Legg Mason Investment Counsel does not sell our clients' nonpublic personal information to anyone. We do not disclose your nonpublic personal information, except as permitted by applicable law or regulation. For example, we may share this information with others in order to process your transactions. We may also provide this information to companies that perform operations or administrative services on our behalf, such as tax processing or printing and mailing. We require these companies contractually to protect the confidentiality of this information and to use it only to perform the services for which we hired them.

With respect to our internal security procedures, we maintain physical, electronic, and procedural safeguards to protect and restrict access to nonpublic personal information. These controls include: (1) securing office buildings; including security personnel and identification card key access to the building and individual floors; (2) placing security cameras at the building entrance; (3) maintaining client files in locked file room; and (4) providing annual employee training. As required by federal

regulation, we will take reasonable measures to protect against access to or use of nonpublic personal information by unauthorized persons when disposing of it.

If a client terminates an account with us, we still continue to adhere to our privacy policies and practices with respect to nonpublic personal information.