

Investment Counselors of Redlands LLC

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Form ADV, Part 2A Brochure

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This brochure provides information about the qualifications and business practices of Investment Counselors of Redlands LLC. If you have any questions about the contents of this brochure, please contact us at 909-792-0711. 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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Investment Counselors of Redlands LLC or any person associated with Investment Counselors of Redlands LLC has achieved a certain level of skill or training.

Additional information about Investment Counselors of Redlands LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2 - MATERIAL CHANGES

Revised March 7, 2012

The purpose of this page is to inform you of any material changes since the last annual update to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

Investment Counselors of Redlands LLC reviews and updates the brochure at least annually to make sure that it remains current. We have not made material changes since our previous brochure, dated March 25, 2011.

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ITEM 4 - ADVISORY BUSINESS

Description of Advisory Firm

Investment Counselors of Redlands LLC (“ICR,” “we,” “our,” or “us”) is a privately owned limited liability company headquartered in Redlands, California. ICR is registered as an investment adviser with the U.S. Securities and Exchange Commission (“SEC”).

Mr. James (“Jim”) Heine founded ICR in September 2005 and the firm’s registration with the SEC was effective January 2006. We began managing client assets in April 2006. Mr. Heine is the sole owner of ICR. ICR provides investment management services to individuals, families, trusts, and businesses.

Advisory Services Offered

ICR provides advice on asset allocation and the selection of investments. Our investment management services include portfolio design, implementation and continued monitoring. Upon request, we will gather information to determine an individual’s retirement projections.

ICR may offer investment advice on any investment held by the client at the start of the advisory relationship. ICR’s recommendations for new investments will primarily include:

- Mutual funds
- Exchange Traded Funds (ETFs)

Additionally, ICR’s recommendations, depending on the individual investment objectives and needs of the client may include:

- Equity securities, including stocks and foreign securities listed on US exchanges (ADRs) or foreign exchanges (ordinaries)
- Real estate investment trusts (REITs)
- Fixed income securities, including corporate and government bonds, commercial paper, and certificates of deposit (CDs)
- Money market funds and cash
- Insurance products, including variable annuities

ICR may occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry.

We discuss our discretionary authority below under **Item 16 - Investment Discretion**. For more information about the restrictions clients can put on their accounts, see **Tailored Services and Client Imposed Restrictions** in this item below.

We describe the Fees charged for investment management services below under **Item 5 - Fees and Compensation**.

Limitations on Investments

In some circumstances, ICR's advice may be limited to certain types of securities.

Limitation by Plan Sponsor/Employer

In the event ICR is managing assets within a retirement plan such as 403(b) or other employer plan, ICR is limited to those investment providers and investment options chosen by the plan administrator. In some circumstances, ICR's advice may be limited to certain types of securities. For example, when we provide services to participants in a 401(k) plan, the participant may be limited to investing in securities included in the plan's investment options. In that case, ICR can only make recommendations to the client from the available options, and will not recommend or invest the client's account in other securities, even if there may be better options elsewhere.

Mutual Fund Limitations

No-Load Mutual Funds

ICR generally limits recommendations of mutual funds to no-load funds or load-waived funds.

Limitation by Custodian

There may also be limitations on the mutual funds that we recommend based on the custodian. Clients establish brokerage accounts with Fidelity Institutional Wealth Services, a division of Fidelity Brokerage Services, Inc. ("Fidelity"), registered broker-dealer, Member SIPC. ICR is limited to the mutual funds available through Fidelity.

Limitation by Client

ICR may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

Tailored Services and Client Imposed Restrictions

ICR manages client accounts based on the investment strategy the client chooses, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. ICR applies the strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations may be limited if the client does not provide us with accurate and complete information. It is the client's responsibility to keep ICR informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want ICR to buy or sell certain specific securities or security types in the account. ICR reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

Assets Under Management

ICR manages client assets in discretionary accounts on a continuous and regular basis. As of 12/31/2011, the total amount of assets under our management was \$58,841,209.

ITEM 5 - FEES AND COMPENSATION

Fee Schedule

ICR charges advisory fees for investment management services. ICR's annual investment management fee is 1.25% on all assets under management. ICR's fees are negotiable and we may charge a lesser management fee based upon certain criteria such as anticipated future additional assets, dollar amount of assets to be managed, management of related accounts, account composition, pre-existing client relationships, or for any other criteria ICR deems appropriate.

We offer and provide investment advisory services to our employees and may waive fees for employees and their family members. We may waive or charge a lesser management fee in certain instances to certain service providers.

Billing Method

ICR's investment advisory fees are payable quarterly in arrears. We use a multi-step process to calculate the client's quarterly fee:

1. We multiply the account value at the beginning of the quarter by the quarterly fee.
2. Fee adjustments for contributions and withdrawals made during the quarter are time-weighted based on the amount of time that principal was in or out of the portfolio in that quarter.
3. Any gains or losses in the account during the quarter will be assigned to principal amounts based on a proration of the fees assigned to each principal amount.

We have outlined examples below:

A Scenario with a Contribution during the Quarter and No Gains/Losses:

- Beginning balance on 1/1/2010 of \$100,000
- Contribution on 2/14/2010 of \$50,000
- No gain/loss

Fee calculation on 3/31/2010:

$$\$100,000 \times .3125\% = \$312.50$$

$$\$50,000 \times .3125\% \times (45 \text{ days} / 90 \text{ days}) = \$78.13$$

$$\text{Total} = \$312.50 + \$78.13 = \$390.63$$

			0.3125% X (45 days / 90 days)	X	\$50,000	=	\$78.13
			0.3125%	X	\$100,000	=	\$312.50
1/1		2/14			3/31		

A Scenario with a Contribution during the Quarter and Gains/Losses:

- Beginning balance on 1/1/2010 of \$100,000
- Contribution on 2/14/2010 of \$50,000
- \$10,000 gain

Fee calculation on 3/31/2010:

- The \$10,000 gain is pro-rated based on the fees assessed on the principal amounts:
Fee on \$100,000 principal = $\$312.50 / \$390.63 = 0.8$
Fee on \$50,000 contribution = $\$78.13 / \$390.63 = 0.2$
- This ratio is applied to the total gain to calculate the fee on the portion of the gain assigned to each principal amount:
 $\$10,000 \times 0.8 \times .3125\% = \25.00
 $\$10,000 \times 0.2 \times .3125\% (45 \text{ days} / 90 \text{ days}) = \3.13

					Gain	\$10,000
					0.3125% X (45 days / 90 days)	\$50,000
					0.3125%	\$100,000
1/1		2/14		3/31		

For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays. For new accounts and terminations, the number of days remaining in the quarter is the number of calendar days following the date a new account funds or the date ICR receives and accepts a termination notification.

It is up to the client whether they wish to have the investment advisory fees withdrawn directly from their custodian account or pay by check. With client authorization, ICR will automatically withdraw the advisory fee from the client's account held by an independent custodian. Typically, the custodian distributes prior quarter advisory fees from the client's account during the first month of each quarter based on ICR's instruction. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account. ICR will send a fee notification to each client. The fee notification will include the account's quarter-end market value and the advisory fee amount. It is the client's responsibility to verify the accuracy of the advisory fee. The custodian will not determine whether the fee is properly calculated.

In addition to the advisory fee notification, ICR will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the account's quarter end market value and advisory fee due.

Other Fees and Expenses

ICR's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts from the assets in the account, which are in addition to the fees client pays to ICR. See **Item 12 - Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, and other fund-related expenses including fees paid to their portfolio managers. The fund's prospectus fully describes the fees and expenses. All fees paid to ICR for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds.

Termination

Either party may terminate the advisory agreement at any time by providing written notice to the other party. The client may terminate the agreement at anytime by writing ICR at its office. If ICR receives verbal notice of termination, we will act on that instruction by providing written confirmation of termination.

Upon termination of the agreement, any earned, unpaid advisory fees will be due and payable. When permitted, ICR will automatically withdraw any earned, unpaid advisory fees from the client's custodian account. If ICR is not able to debit the final advisory fee from the client's custodian account the client will receive an invoice showing the advisory fees due for services rendered and not yet paid.

Other Compensation

ICR does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

ICR does not charge performance-based fees. Our only compensation is from the advisory fees clients pay to ICR, as described in **Item 5**.

ITEM 7 - TYPES OF CLIENTS

ICR offers discretionary investment advisory services to individuals, high net worth individuals, trusts and estates, and individual participants of retirement plans. In addition, we offer advisory services to pension and profit sharing plans, charitable organizations, and businesses.

Account Requirements

Generally, ICR requires clients to maintain a minimum account size of \$100,000. Significant funds withdrawal may result in a request for additional fund deposits to continue with management of accounts. ICR may combine family accounts to meet the account size minimum. ICR may reduce or waive the account minimum requirements at its discretion.

ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies

ICR's general investment objective is to seek real capital growth within the constraints of the level of volatility the client is willing to accept. ICR treats each client account uniquely. ICR assists our clients to develop a statement of investment objectives designed in an effort to help clients attain their financial goals. This statement typically outlines the client's time horizon, volatility tolerance, tax considerations, and any special considerations and/or restrictions the client chooses to place on the management of the account. ICR will then make recommendations that are consistent with the client's statement of investment objectives. ICR selects suitable categories of investments based on the clients' attitudes about volatility and their need for capital appreciation or income. Different instruments involve different levels of exposure to risk. Within each investment category, ICR selects individual securities to create a portfolio that is consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis.

Since ICR treats each client account uniquely, client portfolios with similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence ICR's investment decisions. Clients who buy or sell securities on the same day may receive different prices.

General Investment Strategies

The investment objectives are determined based on the entire account and may be inconsistent with a particular holding and the account's performance at any time. The ratio between fixed income and equity positions in an account may vary over time due to short-term market fluctuations, special market situations, or other unique circumstances. Clients should understand that achieving the stated investment objective is a long-term goal for the account.

Very Conservative

This objective is designed for the cautious investor, one with a low tolerance for market fluctuations and/or a short time horizon. It is targeted toward the investor seeking stability and liquidity from their investable assets. The main goal is to preserve capital while providing some income. This objective seeks minor fluctuations in the value of the portfolio.

Conservative

This objective is appropriate for the investor who seeks both modest capital appreciation and income from their portfolio. This investor will have either a moderate time horizon or a slightly higher tolerance for market fluctuations than the investor with the previous objective. While we have designed this range to preserve the investor's capital, fluctuations in the value of portfolios may occur from year to year.

Moderate

This objective will best suit the investor who seeks relatively stable growth from their investable assets offset by a modest level of income. An investor with this objective will have a higher tolerance for market fluctuations and/or a longer time horizon than either of the previous investors. The main goal of

this objective is to achieve moderate portfolio growth over a complete economic cycle while limiting fluctuations to less than those of the overall stock market.

Moderately Aggressive

This objective is designed for investors with a relatively high tolerance for market fluctuations and a longer time horizon. These investors have little need for current income and seek above-average growth over a complete economic cycle. Its investors should be able to tolerate moderate fluctuations in their portfolio values.

Aggressive

This objective is appropriate for investors who have both a high tolerance for market fluctuations and a long investment time horizon. The main goal of this objective is to provide high growth for the investor's assets over a complete economic cycle. Portfolios in this range may have substantial fluctuations in value from year to year, making this category unsuitable for those who do not have an extended time horizon.

Methods of Analysis for Selecting Securities

ICR generally uses fundamental and technical analysis in the selection of individual securities. Fundamental analysis typically involves analysis of financial statements, the general financial health of companies, and /or the analysis of management or competitive advantages. Our technical analysis focuses on using volume and pricing behavior to select and time our security recommendations.

Additionally, ICR may use specific strategies or resources in the method of analysis and selection of mutual funds and ETFs.

Mutual Funds

In analyzing mutual funds, ICR primarily uses information provided by Morningstar.

Equity Funds

Regarding equity mutual funds, ICR reviews key characteristics such as historical performance, downside protection, consistency of returns, risk level, and/or size of fund. Expense ratio and other costs are also significant factors in fund selection.

Exchange Traded Funds (ETFs)

Regarding ETFs, ICR reviews holdings, overall sector exposure and weightings, trading volume, risk level, and strategy.

Specific Investment Strategies for Managing Portfolios

ICR may use long-term holding and inverse/enhanced market strategies in the construction and management of client portfolios.

Long-Term Holdings

ICR's strategies consist of purchasing, holding and rebalancing a diversified portfolio of publicly traded fixed income and equity securities. ICR typically intends to hold these investments for over a year except when sales are necessary to rebalance the portfolio or to fund replacement acquisitions.

Short-Term Holdings

For certain clients, ICR includes a sector rotation program as part of the account allocation. ICR uses the Fidelity Select Portfolio group of mutual funds to gain equity exposure to different sectors of the economy. The client owns between two and five different sector-specific mutual funds at any time. Mutual funds in this program are typically held between 30 and 120 days before being exchanged for a mutual fund representing a different sector.

Inverse/Enhanced Market Strategies

ICR may also use leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an:

1. Inverse relationship to certain market indices (at a rate of one or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; or
2. Enhanced relationship to certain market indices (at a rate of one or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market.

There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct ICR, in writing, not to employ any or all such strategies for the client's accounts.

General Risk of Loss Statement

Prior to entering into an agreement with ICR, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at anytime be worth more or less than the amount invested; and
4. Committing to ICR's management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, usually a minimum of three years.

Risks

General Risks of Owning Securities

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general

economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

The prices of, and the income generated by, most debt securities held by a client's account may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities in the client's account generally will decline when interest rates rise and increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call" or refinance a security before its stated maturity, which may result in ICR having to reinvest the proceeds in lower yielding securities. Longer maturity debt securities generally have higher rates of interest and may be subject to greater price fluctuations than shorter maturity debt securities. Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default. The guarantee of a security backed by the U.S. Treasury or the full faith and credit of the U.S. government only covers the timely payment of interest and principal when held to maturity. This means that the current market values for these securities will fluctuate with changes in interest rates.

Investments in securities issued by entities based outside the United States may be subject to increased levels of the risks described above. Currency fluctuations and controls, different accounting, auditing, financial reporting, disclosure, regulatory and legal standards and practices could also affect investments in securities of foreign issuers. Additional factors may include expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions, or in receiving payment of dividends can increase risk. Finally, investments in securities issued by entities domiciled in the United States may also be subject to many of these risks.

Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

The benefits of investing through mutual funds include:

Professionally Managed

Mutual funds are professionally managed by investment adviser who research, select, and monitor the performance of the securities the fund purchases.

Diversification

Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as “Don’t put all your eggs in one basket.” Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

Affordability

Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

Liquidity

At any time, mutual fund investors can readily redeem their shares at the next pricing of NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages:

Costs Despite Negative Returns

Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

Lack of Control

Investors typically cannot ascertain the exact make-up of a fund’s portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock’s price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund’s NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

Different Types of Funds

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called “fixed income” funds), and stock funds (also called “equity” funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

Money Market Funds

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high-quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That is why "inflation risk," the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

Bond Funds

Bond funds generally have higher risk than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Some of the risks associated with bond funds include:

Credit Risk

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

Interest Rate Risk

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

Prepayment Risk

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to "retire" its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

Stock Funds

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments. This is true for corporate bonds, government bonds, and treasury securities. Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons—such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

Growth Funds

Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.

Income Funds

Income funds invest in stocks that pay regular dividends.

Index Funds

Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all—or perhaps a representative sample—of the companies included in an index.

Sector Funds

Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

Tax Consequences of Mutual Funds

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any *personal capital gains* when the investor sells shares, the investor may have to pay taxes each year on *the fund's capital gains*. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

Exchange Traded Funds (ETFs)

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve the same return as a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

Real Estate Investment Trusts (REITs)

Securities issued by real estate investment trusts (REITs) primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate

market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

Unit Investment Trust (UITs)

Unit Investment Trusts make a one-time public offering of only a specific, fixed number of redeemable securities called “units.” These units terminate and dissolve on a date specified at the creation of the UIT. Each unit of the UIT represents a pro rata share of a diversified portfolio of securities.

Diversification can help minimize the credit risks of individual securities within the portfolio. Some fixed income UITs may concentrate in bonds of a particular type of issuer and are therefore less diversified and subject to greater risk than a more diversified portfolio. In general, many fixed income UITs are either insured or rated investment grade. Investors may pay a sales charge or load when they purchase units (also known as a “front-end sales load”) or a deferred or “back-end” sales charge when redeeming units. UITs that charge front-end sales loads sometimes offer discounts on the sales load based on the dollar amount or number of units purchased. The UIT discount breakpoints are substantially similar to breakpoint discounts in the sale of mutual fund shares. Most fixed income UITs generally require a minimum investment of \$5,000. Most equity UITs require a minimum investment of \$1,000.

There are three basic types of UITs:

Taxable Fixed Income

Taxable fixed income UITs include portfolios of U.S. Treasury, U.S. agency, and corporate issues that provide monthly, quarterly, or semi-annual income.

Tax Advantaged Fixed Income

Tax-advantaged fixed income UITs include portfolios of municipal bonds that provide monthly or semi-annual tax-free income. A portion of the interest they generate may be subject to state or local taxes. In addition, some taxpayers may be subject to federal or state alternative minimum taxes for portions of the income earned from these UITs. Investors should consult a tax professional regarding their individual tax situation.

Equities

Equity UITs include portfolios of equity securities that provide potential for capital appreciation and/or income.

Features and Risks of UITs may include:

Liquidity

With a few exceptions, an investor can sell a UIT at its liquidation price in the secondary market. Like mutual funds, UITs have a public offering price (POP) and a net asset value (NAV).

Scheduled Distributions

Issuers design fixed income UITs to pay a consistent distribution amount each payment period but the distribution amount does change as each bond in the trust retires and repays its capital investment.

Because of changing interest rates, refundings, or defaults on the underlying securities held in the UIT portfolio, and other factors, distribution amounts may fluctuate.

Scheduled Maturity

As with shares of mutual funds, unit prices of UITs fluctuate daily and there is no guarantee that the price, when redeemed, will equal or exceed the purchase price. Since fixed income UIT portfolios are fixed, investors can easily review the specifics on each security and determine when to expect returns on their investment capital.

Insurance

Many UITs are insured for the timely payment of interest and principal. These UITs usually carry a lower yield than uninsured UITs because of the cost involved in purchasing this insurance by the sponsor.

No On-Going Management

While the lack of management fees is one reason investors are attracted to UITs, and while intensive research goes into the original selection of the securities, holding a security that does not provide ongoing management may be disconcerting to an investor.

Interest Rate Risk

Fixed Income UITs are susceptible to fluctuations in interest rates. If interest rates rise, bond prices within the UIT and the value of each unit will decline despite the lack of change in bond coupons and maturities.

Call Risk

If any of the bonds within a UIT are called, the par value of the UIT will drop and the unit holder will receive the principal payment just like a regular bond. Unlike a mutual fund, which buys additional bonds when a bond it holds is called or matures, a UIT pays the proceeds directly to the unit holders. There is no reinvestment.

Resale Risk

There are some cases when an investor cannot sell a UIT unit. If the UIT is at the end of its life and the price per unit is very low, or if it no longer has an offering price, then it is likely that the sponsor will no longer accept liquidations on the trust. Units sold prior to maturity may be subject to a gain or loss.

Concentration Risk

Some fixed income UITs may concentrate in bonds of a particular type of issuer and are therefore less diversified and subject to greater risk than a more diversified portfolio.

Equity Securities

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

There may be little trading in the secondary market for particular equity securities, which may adversely affect ICR's ability to dispose of such equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

ITEM 9 - DISCIPLINARY INFORMATION

ICR does not have any disciplinary information to disclose.

ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

ICR does not offer any other services or have any affiliates in the financial industry.

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

Code of Ethics

ICR believes that we owe clients the highest level of trust and fair dealing. Further, as part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. ICR's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

ICR's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. The Code of Ethics sets clear guidelines for ICR's employees to follow in areas such as gifts and entertainment, other business activities, and adherence to applicable state and federal securities laws. All personnel receive a copy of each amendment of the Code of Ethics, which they acknowledge in writing. Additionally, employees of ICR are subject to personal trading policies governed by the Code of Ethics (see below). The Code of Ethics includes reporting requirements for ICR's personnel to report their personal securities transactions and holdings.

ICR will provide a complete copy of the Code of Ethics to any client or prospective client upon request. Such requests should be made by contacting us at the address or phone number on the cover of this brochure.

The following items represent situations where a conflict of interest may exist between the client and ICR.

Personal Trading Practices

ICR and our personnel may purchase or sell securities for themselves that we also recommend to clients. This includes related securities (e.g., warrants, options, or futures). This presents a potential conflict of interest as we may have an incentive to favor our personal trades over client transactions or use the information about the transactions we intend to make for clients to our personal benefit.

Our policies to address these conflicts include the following:

1. ICR and our personnel may purchase or sell securities for themselves, regardless of whether the same transaction would be appropriate for any client account.
2. With the possible exception of open-end mutual funds, the client receives the opportunity to act on investment recommendations prior to and in preference to accounts of ICR and our personnel.
3. With the possible exception of open-end mutual funds, when ICR is purchasing or considering purchasing a security on behalf of a client, no person of ICR may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when ICR is selling or considering the sale of a security on behalf of a client, no person of ICR may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security.
4. Conflicts of interest also may arise when ICR's personnel become aware of Limited Offerings or IPOs. Such trading includes private placements or offerings in interests in limited partnerships or any thinly traded securities, whether public or private. Given the inherent potential for conflict, Limited Offerings or IPOs demand extreme care. ICR's personnel are required to obtain pre-approval from the Chief Compliance Officer before transacting in these securities.
5. ICR prohibits trading in a manner that takes personal advantage of price movements caused by client transactions.

ITEM 12 - BROKERAGE PRACTICES

Factors Considered in Selecting Broker-Dealers for Client Transactions

We generally require that clients execute their securities transactions through Fidelity Institutional Wealth Services ("FIWS") through Fidelity Brokerage Services LLC, registered broker-dealers, Members SIPC. ICR is independently owned and operated and not affiliated with FIWS.

ICR uses several factors to evaluate FIWS for client recommendation. Factors that ICR may consider when recommending FIWS may include ease of use, reputation, service execution, pricing, investment options available and financial strength. ICR may also take into consideration the availability of the products and services received or offered.

FIWS may charge commissions (ticket charges) for executing our transactions. We do not receive any part of these separate charges. We may require that clients establish accounts with FIWS to maintain custody of clients' assets and to effect trades for their accounts. FIWS may provide us with access to their institutional trading and custody services, which are typically not available to FIWS retail investors. FIWS's services include brokerage custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. For ICR's clients who choose to have their assets held at FIWS, FIWS will not charge separately for custody; however, FIWS is compensated by account holders through

commissions or other transaction-related fees on securities trades that are executed through FIWS or that settle into FIWS.

Research and Other Soft Dollar Benefits

FIWS makes available to us other products and services that may benefit us but may not benefit our clients. These types of services will help us in managing and administering client accounts. These include software and other technology that provide access to client account data (i.e. trade confirmations and account statements); facilitate trade executions; provide research, pricing information, and other market data; facilitate in the payment of our fees from our clients' accounts; and assist with back-office functions, record keeping, and client reporting. Many of these services may be used to service all or a substantial number of our accounts. We place trades for our clients' accounts subject to our duty to seek best execution and other fiduciary duties. We may use broker-dealers other than FIWS to execute trades for client accounts maintained at FIWS, but this practice may result in additional costs to clients so we are more likely to place trades through FIWS rather than other broker-dealers. FIWS's execution quality may be different from other broker-dealers.

FIWS may also provide other benefits such as educational events, conferences on practice management, regulatory compliance, and information technology. FIWS 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 ICR.

ICR has received benefits from various mutual fund companies. These benefits include paid conference fees and related travel expenses, entertainment, and meals associated with attending mutual fund conferences. Clients should be aware that these benefits create a conflict of interest between ICR and those clients to whom ICR recommends the mutual funds of these companies. To address this conflict ICR has implemented a process for selecting mutual funds. This process consists of several steps. First, we screen for funds based on our macroeconomic view. Next, we use Morningstar and/or publicly available research to narrow down investment options based on the criteria identified in **Item 8**.

We do not feel the benefits that we receive compromise our judgment in recommending funds to clients. As part of our fiduciary duty to clients, ICR endeavors at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by ICR or our personnel in and of itself creates a potential conflict of interest and may indirectly influence ICR's recommendation of FIWS for custody and brokerage services and recommending funds.

Aggregation and Allocation of Transactions

ICR typically recommends mutual funds and exchange-traded funds (ETFs). ICR does not aggregate mutual fund orders as the firm conducts client transactions independently. ICR believes that while aggregating non-mutual fund trades may benefit clients by purchasing or selling in larger blocks, we do not feel that clients are at a disadvantage by our policy not to aggregate mutual fund trades, as the daily price is the same for each investor.

When transacting in ETF's we may aggregate transactions if we believe that aggregation is consistent with the duty to seek best execution for our clients and is consistent with the disclosures made to clients and terms defined in the client investment advisory agreement. No advisory client will be favored over any other client, and each account that participates in an aggregated order will participate at the average share price (per custodian) for all transactions in that security on a given business day. ICR does not aggregate trades of our personnel with those of client accounts.

ITEM 13 - REVIEW OF ACCOUNTS

Managed Account Reviews

We manage portfolios on a continuous basis and generally review positions in client accounts at least quarterly. We offer account reviews to clients on a quarterly basis. Clients should contact our office to request such reviews. Clients may choose to receive reviews in person, by telephone, or in writing. Either Mr. Jim Heine, Chief Investment Officer, or Mr. James Cobb, Chief Financial Officer, conducts reviews based on a variety of factors. These factors may include but are not limited to stated investment objectives, economic environment, outlook for the securities markets, and the merits of the securities in the accounts.

In addition, we may conduct a special review of an account based upon one or more of the following:

1. A change in the client's investment objectives, guidelines and/or financial situation
2. Tax considerations, or
3. Material cash deposits or withdrawals.

Account Reporting

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. In addition, ICR provides written reports detailing performance in client accounts on a quarterly basis. ICR may also provide additional reporting as agreed upon by ICR and the client on a case-by-case basis.

ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

Client Referrals

ICR does not receive any economic benefit from a person who is not a client for providing investment advice or other advisory services to ICR's clients. ICR does not compensate any person directly or indirectly who is not an employee of the firm for client referrals.

Outside Compensation

ICR may refer clients to unaffiliated professionals for specific needs, such as accounting and legal services. In turn, these professionals may refer clients to ICR for investment advisory services. ICR does not have any agreements with individuals or companies that we refer clients to, and we do not receive any compensation for these referrals. However, someone might conclude that ICR is receiving an

indirect economic benefit from the arrangement, as the relationships are mutually beneficial. For example, there could be an incentive for us to recommend services of firms who refer clients to ICR.

ICR only refers clients to professionals that ICR believes to be competent and qualified in their field. Clients have a responsibility to do their own review of the provider. We will generally provide clients with a list of professionals that the client can contact, and it is solely the client's decision whether to engage a recommended firm. Clients are under no obligation to purchase any products or services through these professionals, and ICR has no control over the services provided by another firm. Clients who choose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by ICR.

If the client desires, ICR will work with these professionals or the client's other advisers (such as an accountant, attorney, or financial planner) to help ensure that the provider understands the client's investment portfolio and to coordinate services for the client. ICR will never share information with an unaffiliated professional unless first authorized by the client.

ITEM 15 - CUSTODY

ICR has limited custody of some of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account. Fidelity Brokerage Services LLC ("Fidelity") holds client assets and is a qualified custodian. Clients will receive statements directly from Fidelity at least quarterly. The statements will reflect the client's funds and securities held with Fidelity as well as any transactions that occurred in the account, including the deduction of ICR's fees, if authorized by the client. Clients should carefully review the account statements they receive from Fidelity. When clients receive notices or reports from ICR as well as from the qualified custodian, clients should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive their statement from their qualified custodian at least quarterly should also notify us.

ITEM 16 - INVESTMENT DISCRETION

ICR has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. ICR will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority over their accounts when they sign the custodian paperwork.

However, certain client-imposed conditions may limit ICR's discretionary authority, as when the client prohibits transactions in specific security types. See also **Item 4 - Tailored Services and Client Imposed Restrictions** and **Item – 12 Brokerage Practices**, above.

ITEM 17 - VOTING CLIENT SECURITIES

Proxy Voting

ICR does not accept authority to vote client securities. ICR does not have authority to vote client securities. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

Class Actions

ICR does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

ITEM 18 - FINANCIAL INFORMATION

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. ICR does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

PRIVACY STATEMENT

At Investment Counselors of Redlands LLC, we are committed to preserving the confidentiality of the personal information we receive about you. The following information is provided to help you understand how we gather, use and protect personal information.

You typically provide personal information when communicating with us or other persons, in writing, by phone or electronically. Examples of this information include:

- Name
- Address
- Social Security Number
- Date of Birth
- Information about Your Transactions

This information may be provided in account applications, other forms and from your transactions with our business partners, other persons and us. We also may request information for identification purposes, to fulfill regulatory requirements, and to assist you in making financial decisions and in performing transactions for you.

Any information described above may be shared among our business partners, which provide services in connection with your investment. We also may share this information with unrelated financial service providers, non-financial companies and others, which supply services related to your account. Examples of these services are:

- Transaction Processing
- Account Servicing

We do not disclose the names and addresses of our customers to companies which perform marketing services or to other financial institutions. We also do not disclose nonpublic personal information about customers or former customers to any unrelated party, except as permitted by law.

We use security measures reasonably designed to protect the information we obtain about you. These include:

Third parties performing services for us and having access to your information are required to maintain the confidentiality of the information.

We restrict access to your information in our own offices to specific individuals who have a need to use that information in connection with their employment, and those individuals are subject to an internal confidentiality policy.

We employ data encryption, user names and passwords, web server technologies and other techniques to protect the confidentiality of stored information and electronic transfers of information.

The accuracy of your personal information is important. If you need to correct or update your personal or account information, please contact us at 909-792-0711. We will review, correct or update your information.