

## ADV PART 2A

### **Item 1: COVER PAGE**

- A. *The cover page of your brochure must state your name, business address, contact information, website address (if you have one) and the date of the brochure.*

**Note:** *If you primarily conduct advisory business under a name different from your full legal name, and you have disclosed your business name in Item 1B or Part 1A of Form ADV, then you may use your business name throughout your brochure.*

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**NAME OF FIRM:**

**TAYLOR INVESTMENT COUNSELORS**

50 Federal Street  
Boston, MA 02110-2509

Telephone: 617.482.2222  
Fax: 617.482.8484

**CONTACTS:**

Hugh R Taylor, Managing Partner  
Deborah A Stewart, Compliance Officer

Website: [www.taylorinvestments.com](http://www.taylorinvestments.com)

**DATE OF BROCHURE:**

February 29, 2012

- B. *Display on the cover page of your brochure the following statement or other clear and concise language conveying the same information and identifying the document as a “brochure”.*

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This brochure provides information about the qualifications and business practices of **TAYLOR INVESTMENT COUNSELORS**. If you have any questions about the contents of this brochure, please contact us at 617.482.2222 and/or [tic@taylorinvestments.com](mailto:tic@taylorinvestments.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about **TAYLOR INVESTMENT COUNSELORS** also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

- C. *If you refer to yourself as a “registered investment adviser” or describe yourself as being “registered”, include a statement that registration does not imply a certain level of skill or training.*
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**TAYLOR INVESTMENT COUNSELORS** is a registered investment adviser. That said, our registration with the SEC does not imply a certain level of skill or training.

The above disclaimers notwithstanding the firm’s Form ADV Parts I and II were part of Ashland Partners’ independent review of **TAYLOR INVESTMENT COUNSELORS** being in compliance with Global Investment Performance Standards (“GIPS”) requirements. Moreover, the investment professionals have over 100 years of experience in the investment management business (See Item 1, Form ADV Supplement).

**Item 2: MATERIAL CHANGES**

*If you are amending your brochure for your annual update and it contains material changes from your last annual update, identify and discuss those changes on the cover page of the brochure or on the page immediately following the cover page, or as a separate document accompanying the brochure. You must state clearly that you are discussing only material changes since the last annual update of your brochure, and you must provide the date of the last annual update of your brochure.*

**Note:** *You do not have to separately provide this information to a client or prospective client who has not received a previous version of your brochure.*

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Since the SEC is requiring a new format and additional information in Form ADV Part 2, other than the new descriptive disclosures, the only material change herein is the independent review by Ashland Partners and **TAYLOR INVESTMENT COUNSELORS**’ receipt of Ashlands’ GIPS verification in July 2010.

**Item 3: TABLE OF CONTENTS**

*Provide a table of contents to your brochure.*

**Note:** *Your table of contents must be detailed enough so that your clients can locate topics easily. Your brochure must follow the same order, and contain the same headings, as the items listed in Part 2.*

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**Item 4: ADVISORY BUSINESS**

- A. *Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).*

**Notes:** (1) *For purposes of this item, your principal owners include the persons you list as owning 25% or more on your form on Schedule A of Part 1A of Form ADV (Ownership Codes C, D, or E).* (2) *If you are a publicly held company without a 25% shareholder, simply disclose that you are publicly held.* (3) *If an individual or company owns 25% or more of your firm through subsidiaries, you must identify the individual or parent company and intermediate subsidiaries. If you are an SEC-registered adviser, you must identify intermediate subsidiaries that are publicly held, but not other intermediate subsidiaries. If you are a state-registered adviser, you must identify all intermediate subsidiaries.*

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**TAYLOR INVESTMENT COUNSELORS** is an employee owned, SEC registered independent investment adviser, founded in 1991, with only one office – Boston, MA. We provide continuous management and supervision of assets, including securities portfolios, on a fully discretionary basis.

Our four owners are the investment managers, and they own the following percentage of the firm:

Hugh R Taylor	52%
Bernard E Niedermeyer	24%
Christopher M Blakely	18%
Michael T Whitney	6%

- B. *Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.*
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We only manage separate accounts, are long only and do not use derivatives or leverage. We invest primarily in publicly traded stocks and bonds, do not buy mutual funds and from time to time invest in an Exchanged Traded Fund or Note.

We offer essentially four types of portfolios in long only separate accounts: aggressive, growth and income, and balanced which range from most risky to most conservative, and master limited partnerships only. Approximately 80% of our accounts are growth and income type portfolio allocations.

- C. *Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.*
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We provide investment counseling and attentive client service and design and manage portfolios to produce investment returns commensurate with agreed upon investment strategies.

Accounts may be tailored to individual needs. Moreover, a client may stipulate that certain types of securities or certain securities should not be bought or sold within an account.

- D. *If you participate in wrap fee programs by providing portfolio management services (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.*
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We do not manage any assets on a non-discretionary basis nor do we manage wrap accounts.

- E. *If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date "as of" which you calculated the amounts.*

**Note:** Your method of computing the amount of “client assets you manage” can be different from the method for computing “assets under management” required for Item 5.F in Part 1A. However, if you choose to use a different method to compute “client assets you manage”, you must keep documentation describing the method you use. The amount you disclose may be rounded to the nearest \$100,000. Your “as of” date must not be more than 90 days before the date you last updated your brochure in response to this Item 4.E.

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Assets under management as of the close of business December 31, 2011: \$439,000,000 which is the same amount reported in Form ADV Part 1A, Item 5, F, (2). All client assets are managed solely on a fully discretionary basis.

**Item 5: FEES AND COMPENSATION**

- A. *Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.*

**Note:** If you are an SEC-registered adviser, you do not need to include this information in a brochure that is delivered only to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940.

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**TAYLOR INVESTMENT COUNSELORS** charges only a percentage fee of the market value of the portfolio under management. On January 2, 2010, we increased our fees by 25 basis points:

- an annual rate of 1.25% on amounts up to \$5,000,000
- an annual rate of 1.00% on amounts greater than \$5,000,000

For not-for-profit institutional clients, we discount our fee 25 basis points.

Prior to 2010 our fees were 1.00% on account values up to \$5 million and  $\frac{3}{4}$  of 1% on accounts greater than \$5 million. Client relationships prior to 2010 are grandfathered under the old fee schedule. Any deposit or withdrawal of \$50,000 or more during a quarterly billing cycle is prorated as to value, and the management fee is adjusted accordingly.

- B. *Describe whether you deduct fees from clients’ assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct fees.*
- C. *Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual funds expenses. Disclose that clients will incur brokerage and other transactions costs, and direct clients to the section(s) of your brochure that discuss brokerage.*
- D. *If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.*
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With regard to Items 5.B., 5.C., and 5.D., we bill quarterly, in advance. We supply the client or custodian a quarterly invoice of the investment management fee. (If the custodian is billed, the client receives a copy of the invoice.) On the invoice we show how the fee has been calculated.

In the executed Investment Management Agreement the client chooses how to pay our investment management fee: either a) out of the client's account at the custodian, or b) directly by the client.

In the case where a client discontinues our services any time within the quarter, we refund fees on a quarterly pro-rata per diem basis.

The client will be charged broker commissions of anywhere from 1¢ to 8¢ per share by the various brokers with whom we transact business.

Bank custodians will charge the client's account for custodian services.

E. *If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.*

1. *Explain that this practice presents a conflict of interest and gives you or your supervised persons an incentive to recommend investment products based on the compensation received, rather than on a client's needs. Describe generally how you address conflicts that arise, including your procedures for disclosing the conflicts to clients. If you primarily recommend mutual funds, disclose whether you will recommend "no-load" funds.*
2. *Explain that clients have the option to purchase investment products that you recommend through other brokers or agents that are not affiliated with you.*
3. *If more than 50% of your revenue from advisory clients results from commissions and other compensation for the sale of investment products you recommend to your clients, including asset-based distribution fees from the sale of mutual funds, disclose that commissions provide your primary or, if applicable, your exclusive compensation.*
4. *If you charge advisory fees in addition to commissions or markups, disclose whether you reduce your advisory fees to offset the commission or markups.*

**Note:** *If you receive compensation in connection with the purchase or sale of securities, you should carefully consider the applicability of the broker-deal registration requirements of the Securities Exchange Act of 1934 and any applicable state securities statutes.*

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We do not receive compensation for the purchase and sale of any securities.

1. Not applicable as our employees do not accept compensation outside the firm.
2. Since we have full discretion and select the brokers with whom we do business, except where the client selects a brokerage house also as custodian, the client does not have the opportunity, except in the rare instance, to have trades done elsewhere.
3. Not applicable as we do not have advisory clients.
4. Not applicable as we do not charge advisory fees.

**Item 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

*If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to factor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.*

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**TAYLOR INVESTMENT COUNSELORS** does not charge any performance-based fees nor do we have any side-by-side management arrangements.

**Item 7: TYPES OF CLIENTS**

*Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.*

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**TAYLOR INVESTMENT COUNSELORS'** clients are individual, (including various types of IRAs), families, trusts and estates; corporations and ERISA plans; and not-for-profit organizations.

We do not have a minimum account size, but encourage client relationships to start at \$500,000.

**Item 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

- A. *Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.*
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Investing in securities can be risky. **TAYLOR INVESTMENT COUNSELORS** exerts considerable research efforts to mitigate that potential risk. Our last 10 calendar year results provide ample evidence of our success in this regard. For example: nine out of the last 10 years we have exceeded the annual total return performance of the Standard & Poor's 500 Index, have generated profits for clients in eight of those years, and have averaged an annual total return of 9.6% after fees over that 10 year period.

As we describe our investment process below, please keep in mind that we invest primarily (99%+) in publicly traded securities: equities and fixed income. The equities we use are from least risk/large cap, through to greatest risk/small cap stocks. In fixed income we only invest in 10 year or less maturities of bonds and notes which we strongly believe will pay their coupons and principal when due. We may also invest in convertible securities upon which our investment is based on our analysis of the underlying stock, i.e., company fundamentals. Moreover, we do not use leverage in client accounts or derivatives. Lastly, our aim is to hold a particular security three to five years, or longer.

- B. *For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.*
- C. *If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.*

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With regard to Items 8.B. and 8.C. the foundation of **TAYLOR INVESTMENT COUNSELORS'** investment process is its analysis of fundamental macro factors. We interpret economic, political, monetary and psychological influences, both domestic and international, to arrive at a strategic overview of the U.S. and other major economies and financial markets. Credit, liquidity, the U.S. dollar and other currency relationships, gold and selective strategic commodities, and political fiscal initiatives are many of the factors followed closely.

We use technical and quantitative analysis to determine valuation levels of the equity and bond markets and the stocks of specific companies. Among the indicators considered most important are market breadth, momentum, equity risk premia and relative performance. We perform fundamental security analysis emphasizing corporate financial strength, product or service leadership, innovation, industry sector dynamics, and, most importantly, the quality and character of management.

We combine technical, quantitative and fundamental research to synthesize the strategic overview in our asset allocation and portfolio construction. Implementation of the policy differs depending upon the client's objectives and is realized through its asset allocation process. As noted in the second paragraph "A" above fixed income selection is generally limited to maturities of ten years or less of bonds and notes where we strongly believe there is no risk to the timely payment of principal and interest. Stock selection emphasizes total return, which means investing today in a growing stream of dividend income, cash flow and preferably self-financing enterprises. Large, medium and small capitalization issues are owned by most of our clients. High yielding equities with dividend growth prospects are utilized for defensive and risk dampening purposes and for cash flow/income requirements.

While there is no limit on position amounts allocated per security, we exercise judgment as to the size of market accommodation for individual securities and portions of accounts to be invested either in a particular security or industry. We practice diversification in managing portfolio composition to mitigate risk of any particular security's impact on the portfolio.

Over the spectrum from the aggressive to the balanced portfolios, risk analysis and individual securities weightings are applied to achieve where on the spectrum of risk the client objectives fall.



**Item 9:           DISCIPLINARY INFORMATION**

- A.     *If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.*

*Items 9.A, 9.B and 9.C list specific legal and disciplinary events presumed to be material for this item. If your advisory firm or a management person has been involved in one of these events, you must disclose it under this Item for ten years following the date of the event, unless (1) the event was resolved in your or the management person's factor, or was reversed, suspended or vacated, or (2) you have rebutted the presumption of materiality to determine that the event is not material (see Note below). For purposes of calculating this ten-year period, the "date" of an event is the date that final order, judgment, or decree was entered, or the date that any rights of appeal from preliminary orders, judgments or decrees lapsed.*

*Items 9.A, 9.B and 9.C do not contain an exclusive list of material disciplinary events. If your advisory firm or a management person has been involved in a legal or disciplinary event that is not listed in Items 9.A, 9.B or 9.C, but nonetheless is material to client's or prospective client's evaluation of your advisory business or the integrity of its management, you must disclose the event. Similarly, even if more than ten years have passed since the date of the event, you must disclose the event if it is so serious that it remains material to a client's or prospective client's evaluation.*

- A.     *A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which your firm or a management person*
- 1. was convicted of, or pled guilty or nolo contendere ("no contest") to (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;*
  - 2. is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;*
  - 3. was found to have been involved in a violation of an investment-related statute or regulation; or*
  - 4. was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.*
- B.     *An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which your firm or a management person*
- 1. was found to have caused an investment-related business to lose its authorization to do business; or*

2. *was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority*
    - (a) *denying, suspending, or revoking the authorization of your firm or a management person to act in an investment-related business;*
    - (b) *barring or suspending your firm's or a management person's association with an investment-related business;*
    - (c) *otherwise significantly limiting your firm's or a management person's investment-related activities; or*
    - (d) *imposing a civil money penalty of more than \$2,500 on your firm or a management person.*
- C. *A self-regulatory organization (SRO) proceeding in which your firm or a management person*
1. *was found to have caused an investment-related business to lose its authorization to do business; or*
  2. *was found to have been involved in a violation of the SRO's rules and was; (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.*

**Note:** *You may, under certain circumstances, rebut the presumption that a disciplinary event is material. If an event is immaterial, you are not required to disclose it. When you review a legal or disciplinary event involving your firm or a management person to determine whether it is appropriate to rebut the presumption of materiality, you should consider all of the following factors: (1) the proximity of the person involved in the disciplinary event to the advisory function; (2) the nature of the infraction that led to the disciplinary event; (3) the severity of the disciplinary sanction; and (4) the time elapsed since the date of the disciplinary event. If you conclude that the materiality presumption has been overcome, you must prepare and maintain a file memorandum of your determination in your records. See SEC rule 204-2(a)(14)(iii).*

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In regard to Items 9A. A., B. and C. neither **TAYLOR INVESTMENT COUNSELORS** nor any of its employees has ever been disciplined during his or her career in the investment management business nor to our knowledge and belief has any employee a record of felonies in his or her personal life.

**Item 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

- A. *If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.*
- B. *If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.*
- C. *Describe any relationship or arrangement that is material to your advisory business or to your*

*clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.*

1. *broker-dealer, municipal securities dealer, or government securities dealer or broker*
2. *investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund”, and offshore investment fund)*
3. *other investment adviser or financial planner*
4. *futures commission merchant, commodity pool operator, or commodity trading advisor*
5. *banking or thrift institution*
6. *accountant or accounting firm*
7. *lawyer or law firm*
8. *insurance company or agency*
9. *pension consultant*
10. *real estate broker or dealer*
11. *sponsor or syndicator of limited partnerships.*

- D. *If you recommend or select other investment advisors for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.*
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With respect to Items 10.A., 10.B., 10.C., and 10.D. none of the employees of **TAYLOR INVESTMENT COUNSELORS** is involved in any other business activities, nor is any partner involved in any other investment entity.

**Item 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

- A. *If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any client or prospective client upon request.*
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Everything we do at **TAYLOR INVESTMENT COUNSELORS** is based on the premise that we are client centric and are first and foremost fiduciaries. We have a detailed descriptive Policy and Procedures Manual, including our Code of Ethics, concerning compliance with Rule 204A-1 under the Investment Advisers Act of 1940, the U.S. Patriot Act, and the Insider Trading and Securities Fraud Enforcement Act of 1988 (“ITSFEA”). The Policy manual is enforced so as to ensure all matters of compliance and to prevent any abuses. Each employee is given annually a copy of the Manual; is required to read it; must sign a Statement as to its understanding; and must return the signed Statement to the Managing Partner. We believe all our activities and records are in full compliance with our Policy and Procedures Manual and underlying laws. (A copy of our Code of Ethics is available upon request.)

- B. *If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.*

*Examples: (1) You or a related person, as principal, buys securities from (or sells securities to) your clients; (2) you or a related person acts as general partner in a partnership in which you solicit client investments; or (3) you or a related person acts as an investment adviser to an investment company that you recommend to clients.*

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No employee is an officer or involved in any other financial firm, nor does any employee sell any security or recommend any investment in any enterprise he may have investment in, except as stated in the next paragraph as to employee and employee related accounts which are managed within TIC and in which there is buying and selling of securities which we also buy and sell for our clients.

- C. *If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.*
- D. *If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.*

**Note:** *The description required by Item 11.A may include information responsive to Item 11.B, C or D. If so, it is not necessary to make repeated disclosures of the same information. You do not have to provide disclosure in response to Item 11.B, 11.C, or 11.D with respect to securities that are not "reportable securities" under SEC rule 204A-1(e)(10) and similar state rules.*

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With regard to Items 11.C. and 11.D. any employee may make a new investment in a security owned by clients only after all current client block trade requirements for that specific security have been satisfied, but before any directed brokerage trades. Similarly, an employee may sell a security which clients also own only after all clients' block sales requirements have been met on a timely basis. When block trades are executed, employee transactions are allocated through our portfolio management software system, but their allocations are only filled after all client block trades have been executed. Outside of block trades, no other employee trades may be done without permission of the Managing Partner. If the Managing Partner is not available, the employee must obtain the permission of another partner. The Compliance Officer keeps a trading blotter for each employee, and the Compliance Officer receives monthly brokerage or custodian statements for all employee investment accounts plus internal reports from our Advent Software portfolio management accounting system in which all employee accounts are tabulated and monitored.

## **Item 12:       BROKERAGE PRACTICES**

- A. *Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g. commissions).*
  - 1. *Research and Other Soft Dollar Benefits.* *If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions ("soft dollar benefits"), disclose your practices and discuss*

*the conflicts of interest they create.*

**Note:** *Your disclosure and discussion must include all soft dollar benefits you receive, including in the case of research, both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.*

- a. *Explain that when you use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.*
- b. *Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving the research or other products or services, rather than on your client's interest in receiving most favorable execution.*
- c. *If you may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), disclose this fact.*
- d. *Disclose whether you use soft dollars to service all of your clients' accounts or only those that paid for the benefits. Disclose whether you seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.*
- e. *Describe the types of products and services you and any of your related persons acquired with client brokerage commissions (or markups or markdowns) within your last fiscal year.*

**Note:** *This description must be specific enough for your clients to understand the types of products or services that you are acquiring and to permit them to evaluate possible conflicts of interest. Your description must be more detailed for products or services that do not qualify for the safe harbor in section 28(e) of the Securities Exchange Act of 1934, such as those services that do not aid in investment decision-making or trade execution. Merely disclosing that you obtain various research reports and products is not specific enough.*

- f. *Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for soft dollar benefits you received.*

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A. 1. Majority of our Brokerage Practices

Unless the client designates brokerage, **TAYLOR INVESTMENT COUNSELORS** has the discretion as to the placement of orders for execution. We also have discretion as to the size of security purchases and sales.

We try to avoid undue concentration of commissions with any particular broker except where exceptional service and underwritings are involved. Moreover, we do not have any formal understanding or agreements with brokers. We have on-going relationships with a number of prominent brokerage firms, and certain regional firms. We receive written research material from them and frequently engage in telephone communications and personal meetings with their representatives. The research is used to manage our accounts more effectively.

While there is no limit on amounts, we exercise judgment as to the size of market accommodation for individual securities and portions of accounts to be invested either in a particular security or industry. We practice diversification in managing portfolio composition.

When we have discretion in the selection of brokers, which is over 80% of the time, commissions usually range between 1¢ and 8¢ per share. In handling listed securities, brokers usually charge similarly. As much as possible, we try to trade in “blocks” so that client accounts within the block are treated similarly, and all clients are given the same commission discounts.

When a client wishes to have his securities held in custody at a brokerage house, or where a client is referred to us by a broker and that broker’s firm is the custodian, this is commonly referred to as “directed brokerage”, and the client negotiates the commission arrangements with the broker. The client understands that in recognition of custody and other services provided to the client’s account by such brokerage firm, the brokerage commissions and any dealer mark-ups paid by the client’s account may from time to time be higher than if we, on the client’s behalf, utilized the services of other brokerage firms which were not also providing the custody and other additional services for the client’s account. As part of our investment management agreement, the client executes an addendum which details the specific directed brokerage arrangements with that particular brokerage firm and confirms our brokerage policies as set forth herein.

We have “soft dollar” arrangements. The “soft dollars” are used to have access to corporate information as well as macro analytical reports from certain vendors, to lease a portion of back office software systems and financial analytical software and to receive data feeds providing securities pricing. In all cases, the soft dollar arrangements are shared by all block trade clients and accrue to the benefit of all clients. There are no proprietary research arrangements paid by soft dollars nor are there any mark ups in commissions that are designated for soft dollars. In terms of third party research, the major providers we pay in soft dollars are ISI Group and Strategas Research Group. In terms of third party vendors with whom we subscribe for a variety of services and data pricing, exchange fees, and back office systems, the major providers we pay are Bloomberg, Baseline and Advent Software.

In 2011 our annual total soft dollars payments were 21% of all the commissions our trading activity generated.

2. Brokerage for Client Referrals. *If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.*
  - a. *Disclose that you may have an incentive to select or recommend a broker-dealer based on your interest in receiving client referrals, rather than on your clients’ interest in receiving most favorable execution.*
  - b. *Explain the procedures you used during your last fiscal year to direct client transactions to a particular broker-dealer in return for client referrals.*

### Brokerage for Client Referrals

We do not direct trades to any broker as an incentive to any broker to refer us clients. From time-to-time in the regular course of our investment business and interaction with brokers, we may get a referral, but that is very rare.

### 3. Directed Brokerage

- a. *If you routinely recommend, request or require that a client direct you to execute transactions through a specified broker-dealer, describe your practice or policy. Explain that not all advisers require their clients to direct brokerage. If you and the broker-dealer are affiliates or have another economic relationship that creates a material conflict of interest, describe that relationship and discuss the conflicts of interest it presents. Explain that by directing brokerage you may be unable to achieve most favorable execution of client transactions, and that this practice may cost clients more money.*
- b. *If you permit a client to direct brokerage, describe your practice. If applicable, explain that you may be unable to achieve most favorable execution of client transactions. Explain that directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because you may not be able to aggregate orders to reduce transactions costs, or the client may receive less favorable prices.*

***Note:** If your clients only have directed brokerage arrangements subject to most favorable execution of client transactions, you do not need to respond to the last sentence of Item 12.A.3.a. or to the second or third sentences of Item 12.A.3.b.*

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### Directed Brokerage

Where a client's account, at the client's request, is held in custody at a brokerage firm, we execute the trades for the account with that brokerage firm. Otherwise, no client directs us to transact with a particular broker. In most cases we, as fully described above in Item 12, A.1. 5<sup>th</sup> paragraph, aggregate trades with the approximately 15 brokerage firms with which we have on-going relationships.

- B. *Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.*

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The block aggregation of client transactions allows us to execute trading in a more timely, equitable and efficient manner and seeks to reduce overall commission charges to clients. All clients eligible for block trading have their securities orders aggregated. In these instances clients participating in any aggregated transactions will receive an average share price and transaction costs will be shared equally and on a pro-rata basis.

As a matter of policy, our allocation procedures are fair and equitable to all eligible aggregated clients with no particular aggregated group or client(s) being favored or disfavored over any other clients. When a partial trade is executed, all eligible clients share in it on an equal percentage basis.

Also within the eligible block accounts are those of **TIC**'s employees, including any trust of which an employee is a beneficiary and any in-house managed employee 401K portfolios. However, all trades for these accounts are allocated after all the client eligible block accounts have been totally satisfied and filled.

**Item 13: REVIEW OF ACCOUNTS**

- A. *Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.*
  - B. *If you review client accounts on other than a periodic basis, describe the factors that trigger a review.*
  - C. *Describe the content and indicate the frequency of regular reports you provide to clients regarding their accounts. State whether these reports are written.*
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**TAYLOR INVESTMENT COUNSELORS'** management committee, made up of the four investment managers, manage all the client accounts. Each account is assigned an investment manager who has final authority in terms of that account's management. Each of us applies the decisions of the investment committee to each account and decides whether that particular decision (about a buy, a sell, asset allocation strategy, etc.) is suitable for each client account.

The investment committee meets formally twice a month, but can meet more frequently if necessary. At these formal meetings, the macro factors and investment process are reviewed, and asset allocations are discussed resulting in an analysis of our focus list of securities, particular stocks, and fixed income, their valuations, risks and suitability for specific accounts. These formal meetings may range as long as three to four hours if there are new investments to be presented or if there may be fundamental changes in our investment outlook and strategy.

From time to time, as a result of decisions agreed upon at these meetings, an investment manager may have to spend time restructuring an account or explaining to a client a shift in strategy and its applicability to that client's account. This may be done by letter, email, phone call or meeting.

On a quarterly basis we provide formal reporting to clients which includes: 1) a personal letter reviewing the account, its performance and any administrative matters relating to the account and the client; 2) a portfolio appraisal of market valuation and computer printout of performance; 3) an invoice; and 4) an **INVESTMENT REVIEW & OUTLOOK** memorandum. Between quarterly reports there may be additional letters, telephone calls, or meetings depending on the client's requirements. We are committed to providing high quality, reasonable services which are essential to maintaining a close and an informed client relationship. Following year-end we provide to appropriate parties, on a timely basis, the taxable data for the assets under our management.



**Item 14: CLIENT REFERRALS AND OTHER COMPENSATION**

- A. *If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.*
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On February 2, 2004 **TIC** entered into a written soliciting Agent's agreement with Edmund T Hagerty in Massachusetts whereby Mr Hagerty would refer clients to **TIC** in return for a basis point percentage of the investment management fee invoiced and received by **TIC**. The agreement is effective for the period in which any referred account is managed by **TIC** and that both the Agent and we are able to perform within the terms of the agreement. The Agent's agreement was renewed between Mr Hagerty and **TAYLOR INVESTMENT COUNSELORS** in 2011. Any client referred by Mr Hagerty is made aware in writing of the Agent's agreement and is required to sign a document to that affect.

On December 1, 2009 **TIC** entered into a written soliciting Agent's agreement with Scott E Plaskett, CFP, a Senior Financial Planner and CEO at **IRONSHIELD** Financial Planning whereby Mr Plaskett would refer clients to **TIC** in return for an additional basis point fee billed by **TIC** in addition to the investment management fee invoiced and received by **TIC**. The agreement is effective for the period in which any referred account is managed by **TIC** and that both the Agent and **TIC** are able to perform within the terms of the agreement. Any client referred by Mr Plaskett is made aware in writing of the Agent's agreement and is required to sign a document to that affect.

On September 13, 2010 **TIC** entered into a written soliciting Agent's agreement with Kinga M Czerska in the State of Washington whereby Ms Czerska would refer clients to **TIC** in return for a basis points percentage of the investment management fee invoiced and received by **TIC**. Any client referred by Ms Czerska is made aware in writing of the Agent's agreement and is required to sign a document to that affect.

On January 3, 2011 **TIC** entered into a written soliciting Agent's agreement with Parenteau Associates, LLC of Connecticut whereby Parenteau Associates, LLC would refer institutional clients who wished to have **TIC** manage a Master Limited Partnership only portfolio. In return Parenteau would receive a basis points percentage of the investment management fee invoiced and received by **TIC**. Any client referred by Parenteau Associates, LLC is made aware in writing of the Agent's agreement and is required to sign a document to that affect.

On September 23, 2011 **TIC** entered into a written soliciting Agent's agreement with James T Troup of Nevada whereby Mr Troup would refer clients in return for a basis points percentage of the investment fee invoiced and received by **TIC**. Any client referred by Mr Troup is made aware in writing of the Agent's agreement and is required to sign a document to that affect.

On October 14, 2011 **TIC** entered into a written soliciting Agent's agreement with Easton's Point Capital Management, LLC of Rhode Island whereby Easton's Point Capital Management, LLC would refer institutional clients in return for a basis points percentage

of the investment fee invoiced and received by **TIC**. Any client referred by Easton's Point Capital Management, LLC is made aware in writing of the Agent's agreement and is required to sign a document to that affect.

- B. *If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.*

**Note:** *If you compensate any person for client referrals, you should not consider whether SEC rule 206(4)-3 or similar state rules regarding solicitation arrangements and/or state rules requiring registration of investment adviser representatives apply.*

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As discussed in Item 12 above, "Brokerage Practices", we do not incentivize any brokers for referrals.

**Item 15: CUSTODY**

*If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.*

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**TAYLOR INVESTMENT COUNSELORS** does not act as a custodian. Most of our clients' assets are held in custody at State Street Bank & Trust Company in Boston where the client may create a code which allows the client to view his investment account on-line.

Bank custodians charge for their custody services and bill the client's account for their fees, as authorized in the custodian agreement executed by the client. Custodians charge our clients 8 to 15 basis points on the account value.

The custodian sends the client an account statement monthly or quarterly depending on the client's election. To create our quarterly report to the client we reconcile our account information with that of the custodian. In this reconciliation we and the client may have to make two adjustments to arrive at the same account asset value:

We report on a trade date basis while the custodian reports on a settlement date basis. Thus, there may be a trade that we have placed and executed with a broker, but has not as yet settled at the custodian but would appear on our portfolio appraisal sent to the client by us, but would not appear on the client's custodian statement.

Occasionally there will be a slight difference in the price used on a quarterly appraisal versus that used by the custodian. This is especially true with foreign securities whose prices are translated into U.S. dollars. The foreign exchange factor used may be slightly different between the pricing service we use and that used by the custodian.

We urge clients to compare our appraisal with that of the custodian and to review the transactions including collection of income.

**Item 16: INVESTMENT DISCRETION**

*If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on those authority. Describe the procedures you follow before you assume this authority (e.g. execution of a power of attorney).*

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As spelled out in the investment management agreement entered into between the client and ourselves, we have complete discretionary authority over the assets that the client entrusts to our management.

**Item 17: VOTING CLIENT SECURITIES**

- A. *If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.*
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**TAYLOR INVESTMENT COUNSELORS'** governing principle in voting proxies is to try to assure: a) the viability and profitability of the companies in which we have invested client funds, b) ethical corporate behavior, c) fair treatment of employees and d) respect for the community and the environment. This is a very large task and responsibility which we have always tried to uphold and, therefore, commencing in 2011 we have engaged the services of Broadridge Investor Communication Solutions, Inc to implement our proxy voting to insure that the best interests of our clients are upheld.

- B. *If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.*
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A corporate proxy usually requests shareholder votes on several issues: election of the Board of Directors, or a portion thereof; appointment of independent auditors; executive compensation plans, including the granting of options; employee stock ownership programs; and proposals introduced by shareholders, most often concerned with accounting, environmental issues, human rights and other social concerns. Occasionally, we are asked to vote on mergers or acquisitions.

**Item 18: FINANCIAL INFORMATION**

A. *If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.*

1. *The balance sheet must be prepared in accordance with generally accepted accounting principles, audited by an independent public accountant, and accompanied by a note stating the principles used to prepare it, the basis of securities included, and any other explanations required for clarity.*
2. *Show parenthetically the market or fair value of securities included at cost.*
3. *Qualifications of the independent public accountant and any accompanying independent public accountant's report must conform to Article 2 of SEC Regulation S-X.*

**Note:** *If you are a sole proprietor, show investment advisory business assets and liabilities separate from other business and personal assets and liabilities. You may aggregate other business and personal assets unless advisory business liabilities exceed advisory business assets.*

**Note:** *If you have not completed your first fiscal year, include a balance sheet dated not more than 90 days prior to the date of your brochure.*

**Exception:** *You are not required to respond to Item 18.A of Part 2A if you also are: (i) a qualified custodian as defined in SEC rule 206(4)-2 or similar state rules; or (ii) an insurance company.*

B. *If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.*

**Note:** *With respect to Items 18.A and 18.B, if you are registered or are registering with one or more of the state securities authorities, the dollar amount reporting threshold for including the required balance sheet and for making the required financial condition disclosures is more than \$500 in fees per client, six months or more in advance.*

C. *If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.*

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In regard to Items 18.A., 18.B. and 18.C. inasmuch as **TAYLOR INVESTMENT COUNSELORS** is not a custodian and does not invoice its management fee more than three months in advance, under the SEC regulations we do not have to provide any of the firm's financial information.

**If you are registering or are registered with one or more state securities authorities, you must respond to the following additional item.**

**Item 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not Applicable