

# Windhaven Investment Management, Inc.

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Windhaven Investment Management, Inc. (“Windhaven” or “Advisor”). If you have any questions about the contents of this brochure, please contact Windhaven Compliance at 617-960-5300 or [compliance@windhaveninvestments.com](mailto:compliance@windhaveninvestments.com). 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.

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

## **Summary of Material Changes (Since March 31, 2011)**

- Advisory Business. As of December 31, 2011, the amount of assets managed by Windhaven on a discretionary basis had increased to \$8.5862 billion.

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## Advisory Business

Windhaven is an investment advisory firm serving individuals, associated trusts, estates, charitable organizations, retirement plans, pension and profit sharing plans, foundations and endowments, banking institutions, pooled investment vehicles, state or municipal government entities, and other corporations, business entities or investment advisors. We use a proprietary process and model to guide investment decisions and attempt to manage portfolio risk.

Our investment approach is the result of over 30 years of independent research. We broadly diversify investment portfolios across the global capital markets and regularly include index investments in gold, commodities, emerging-market securities, and real estate, in addition to index investments in U.S. and international developed-market stocks and bonds. Understanding and modeling risk is a research priority. We believe it is important to look at both returns and the risk taken to achieve those returns.

Assets held in Windhaven-managed client accounts are in exchange-traded funds, index funds, exchange-traded notes, or mutual funds, and from time to time may include other securities. Typically, a client, in consultation with Windhaven, will select one of three portfolio strategies (“Diversified Conservative”, “Diversified Growth”, and “Diversified Aggressive”), or combination of strategies, based on that client’s objectives, risk tolerance, and other factors relevant to that client’s circumstances. Clients may impose reasonable restrictions on the management of the account subject to the approval of Windhaven. Clients pay an investment advisory fee to Windhaven as well as the expenses attributable to the exchange-traded fund (“ETF”), index fund, exchange-traded note (“ETN”), mutual fund, or other security. The firm also

provides limited investment consulting services. Windhaven serves as a portfolio manager in a number of wrap fee programs. Information relating to Windhaven's participation in wrap fee programs is included in the Other Financial Industry Activities and Affiliations section of this Form ADV Part 2A.

Windhaven is a wholly owned subsidiary of The Charles Schwab Corporation ("CSCorp"). The founder and principals of Windhaven Investment Management were formerly with Windward Investment Management, Inc., registered with the SEC as an investment advisor as of April 2000. Prior to that, it was known as Windward Capital, Inc. and was registered with the SEC as an investment advisor as of October 1994. Prior to Windward Capital, Inc., Stephen J. Cucchiaro was chief executive of Allied Capital Management, which registered with the SEC in November 1990. Mr. Cucchiaro has been the primary portfolio manager continuously, with Windhaven and all predecessor firms.

Windhaven was founded in 2010 and is 100% owned by Schwab Holdings, Inc. As of December 31, 2011 Windhaven managed \$8.5862 billion on a discretionary basis. Windhaven does not manage any assets on a non-discretionary basis.

## Fees and Compensation

Unless such fees are paid directly by the client, the custodian will deduct management fees from the client's account and pay to the Advisor, as full compensation for Windhaven's investment advisory services rendered. Calculation of annual investment management fees ("Fee") are detailed in the chart below:

Client's Household Assets	Annual Fee
First \$5 million	1.0% of assets
Next \$5 million	0.85% of assets
Next \$15 million	0.75% of assets
Next \$25 million	0.60% of assets
Amount over \$50 million	0.50% of assets

Fees generally are not negotiable, except in rare circumstances.

Fees for sub-advisory work and introductions through intermediary channels are set at the discretion of Windhaven. Until the intermediary has greater than \$25 million of total client assets with Windhaven, each client will pay an annual investment management fee as calculated in the chart below:

Client's Household Assets	Annual Fee
Up to \$5 million	0.80% of total household assets
Greater than \$5 million	0.75% of total household assets

Once the intermediary's aggregate assets with Windhaven exceed \$25 million, each client will pay an annual investment management fee as calculated in the chart below:

<b>Client's Household Assets</b>	<b>Annual Fee</b>
First \$10 million	0.75% of household assets
Next \$15 million	0.65% of household assets
Next \$25 million	0.55% of household assets
Amount over \$50 million	0.50% of household assets

Windhaven defines a "household" as accounts with like registrations or accounts having the same address.

Fees are charged quarterly, in arrears, on the basis of the annual rate applied against end-of-quarter valuations and divided by four, according to terms set forth in the investment advisory agreement. Windhaven generally uses prices provided by Charles Schwab & Co., Inc. ("Schwab"), an affiliate of Windhaven, when valuing client assets.

Certain clients may be introduced to Windhaven via a referral from Schwab. In cases where the client has selected Schwab as custodian, Schwab will waive all trading commissions on the account. Note that Schwab's waiver does not include any other account fees or expenses, such as exchange process fees, transfer taxes, third-party mutual fund transaction fees on funds transferred into an account and liquidated, certain contingent short-term redemption fees, periodic distribution fees, certificate delivery fees, reorganization fees, electronic funds or wire transfer fees, and any other similar costs or charges. More specific information about Schwab's Windhaven referral program appears in Schwab's Disclosure Brochure for that program, which is provided to program clients.

Windhaven also participates as a portfolio manager of separate accounts in the Managed Account Access® and Connection programs (the "Managed Account Programs"), sponsored by Schwab. More specific information about the Managed Account Programs and the fees paid by Managed Account Programs clients to participate in the program appears in Schwab's Disclosure Brochure for that program, which is provided to program clients. Pursuant to an agreement between Windhaven and Schwab, Windhaven is entitled to receive an annual fee from Schwab, payable monthly, equal to 0.35% on all program assets. Windhaven does not enter into agreements directly with Managed Account Programs clients and accordingly does not receive direct compensation from or negotiate fees with them.

For each arrangement described above, the Fee does not cover certain costs or charges imposed by third parties, including odd-lot differentials, exchange fees, contingent redemption fees, and transfer taxes mandated by law. The custodian may also impose additional charges for special services elected by clients, including electronic fund and wire transfer fees, certificate delivery fees, and reorganization fees.

In addition to the Fee, each mutual fund or ETF is subject to investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses related to investments in investment companies, as set forth in the prospectuses of the funds. These fees

and expenses are paid by the funds but ultimately are borne by clients as fund shareholders, and are in addition to the Fee. These fees and expenses will generally not be deducted from the Fee. The ETFs are available outside of the Windhaven strategies without paying the Fee, subject to applicable commissions and/or transaction charges.

Conversely, the Windhaven strategies may provide access to certain mutual funds, ETFs, or classes of funds that you might not normally be qualified to purchase. If an account leaves the Windhaven strategies, these investments may be liquidated or exchanged for the share class corresponding to the size of a client's individual investment in a fund. Further, to the extent that cash used for investment in the Windhaven strategies comes from redemptions of a client's mutual fund shares, ETFs, or other investments, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred. Such redemption fees would be in addition to the Fee on those assets.

Schwab may receive an investment management fee for managing an affiliated mutual fund or ETF, or other forms of compensation in connection with the operation and/or sale of shares of affiliated or unaffiliated funds, to the extent permitted by applicable law. The fee arrangements will be disclosed upon request of a client and are available in the applicable fund's prospectus. Schwab may also receive compensation in connection with cash that is on deposit in accounts but not invested in a money market fund.

If a client's account(s) is custodied at Schwab, cash in the account(s) may be invested in a money market fund that is managed or distributed by a Schwab affiliate, including funds sponsored by Schwab Bank or Charles Schwab Investment Management, Inc. ("CSIM"). These money market funds include Schwab One®, Schwab Bank Sweep, free credit balances, Schwab Money Market Funds, Schwab Money Market Value Advantage Funds, and Schwab Money Market Sweep Funds (collectively, the "Schwab Money Funds"). Cash may also be invested in a sweep vehicle sponsored by Schwab Bank (together with the Schwab Money Funds, referred to herein as the "Schwab Sweep Vehicles"). Although Windhaven does not earn additional compensation from such cash investments, Schwab and its other affiliates may. This presents a conflict of interest. More information about the money fund sweep feature and these other cash sweep options may be found in your brokerage account agreement(s).

CSIM or another affiliate of Schwab will earn management and administrative fees from the Schwab Money Funds as set forth in the prospectus or other disclosure documents. CSIM and other affiliates also may receive other compensation in connection with the operation and/or sale of shares of the Schwab Sweep Vehicles to the extent permitted by applicable law, such as transfer agent and shareholder servicing fees (see the prospectus and statement of additional information for the Schwab Money Funds). However, for retirement accounts including IRAs and accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Fee Schedule is not charged on the portion of your portfolio invested in the Schwab Sweep Vehicles.

Schwab may also earn interest, generally at money market rates, on aggregate cash balances held in Schwab's bank accounts, which include assets in accounts enrolled in a program that are awaiting investment or pending distribution. Assets awaiting investment include both cash that a

client has deposited into their account and un-invested amounts held in a client's account as a result of an authorized transaction. Schwab may earn interest on such amounts through the beginning of the second business day following the deposit or transaction in question. Schwab may earn interest on assets pending distribution from a client's account beginning on the day the assets are debited from your account and continuing until the distribution check is presented for payment, the timing of which is beyond Schwab's control.

These potential conflicts of interest are mitigated by the fact that Windhaven's investment decision-making process is independent of and separate from both Schwab and CSIM.

As a general matter, a price for a security that is listed on a national securities exchange (a "listed security") is determined by the security's closing sales price on the principal exchange on which such security is traded, as of the close of business on the valuation date, provided such listed security actually traded on the valuation date. Any unlisted security regularly traded in an over-the-counter ("OTC") market and any security that has not traded on the valuation date will be valued at the latest available bid price quotation, or the value furnished by an independent third-party pricing service or other third-party source (an "independent pricing source"). Any other assets, including listed securities or OTC securities for which the custodian or Windhaven has a good-faith belief that market prices or information from independent pricing sources is inaccurate or unreliable, will be fair valued by the custodian or another third-party source.

In determining and reporting pricing information and making fair value determinations, the custodian or Windhaven may rely on information obtained from third-party vendors, including independent pricing sources, which may not be available to the general public and which are believed, but not guaranteed, to be reliable. Windhaven will not be liable for any valuation error resulting from reasonable reliance on such third-party vendors. Additionally, the client understands that, because Windhaven is compensated based on the value of the portfolio under management, Windhaven (and, because it is a related person of Windhaven, Schwab, the custodian) may have a conflict of interest when fair valuing a holding in the portfolio.

If the advisory agreement between the client and Windhaven is terminated, Windhaven's compensation shall be determined as provided above on the basis of the value of the portfolio assets on the date of termination, as though the date of termination were a quarterly valuation date, and shall be payable on a pro-rata basis for the last quarter during which Windhaven has served hereunder.

## **Performance Based Fees and Side-by-Side Management**

Windhaven does not charge any performance fees.

## **Types of Clients**

Windhaven primarily provides customized investment management services to individuals, associated trusts, estates, charitable organizations, pension and profit sharing plans, foundations and endowments, banking institutions, pooled investment vehicles, state or municipal government entities and other corporations, business entities or investment advisors.

Windhaven seeks clients with portfolio assets of at least \$500,000. Exceptions to this policy are made at Windhaven's discretion. Certain retirement accounts may not be eligible. Clients who receive portfolio management services from Windhaven as a result of a referral from Schwab or through the Managed Account Programs or other wrap fee program may be subject to a lower minimum.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Windhaven has constructed three client portfolios with the following investment strategies:

- I. **Diversified Conservative:** The Diversified Conservative strategy attempts to earn returns in excess of inflation over time while maintaining a focus on downside risk management. It is structured to benefit from economic prosperity while striving to protect against a variety of economic scenarios, including recession, deflation, credit contraction, inflation and geopolitical uncertainties. The portfolio provides diversification and balance and may have exposure to U.S. and international stocks, bonds, real estate, hard assets and multiple currencies. However, equity exposure is modest, and emphasis is placed on fixed income securities. This strategy may be appropriate for investors with a low tolerance for risk.
- II. **Diversified Growth:** The Diversified Growth strategy seeks to achieve equity-like returns over full market cycles with less risk. The portfolio provides diversification and balance and may have exposure to U.S. and international stocks, bonds, real estate, hard assets and multiple currencies. This strategy may be appropriate for investors with a time horizon greater than five years and who have a moderate tolerance for risk.
- III. **Diversified Aggressive:** The Diversified Aggressive Strategy strives to aggressively exploit global capital market investment opportunities while exhibiting less volatility and maximum drawdown than conventional equity portfolios over full market cycles. The portfolio provides diversification and balance and may have exposure to U.S. and international stocks, bonds, real estate, hard assets and multiple currencies. This strategy may be appropriate for investors who have a 10 to 15 year time horizon, a substantial tolerance for risk and an ability to withstand a permanent loss of capital.

Windhaven also offers a Diversified International strategy on a limited basis, primarily through its registered investment advisor clients. This strategy aims to provide clients with a balanced and well-disciplined international and hard asset portfolio of liquid investments.

To construct client portfolios, Windhaven employs a proprietary mathematical model combined with a disciplined review process to guide investment decisions and manage portfolio risk.

Windhaven uses published information from a large number of public data sources including but not limited to: Bloomberg, MSCI Barra, The Economist, The Wall Street Journal, Barron's, Barclays Capital, Gold.org, Kitco.com, Hedge Fund Research, BarclayHedge.com, Economagic.com, and the Federal Reserve Bank.



Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear. The following is a sample of the types of risks Windhaven clients should be aware of when their assets are managed by the Advisor:

- **Strategy Risk:** There are the risks associated with the long-term core strategic holdings for each of the strategies. The more aggressive the Windhaven strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities.
- **Model Risk:** There are distinct risks associated with Windhaven portfolios' shorter-term dynamic allocations, which can result in more concentration of the portfolios towards a certain asset class or classes. This introduces the risk that Windhaven could be on the wrong side of a tactical over- or under-weight, thus resulting in a drag on overall performance.
- **Systematic or market risk:** Windhaven portfolios are invested in the global capital markets and are exposed to these markets. For example, if U.S. stocks decline, the portion of the Windhaven portfolios invested in the U.S. stock market will decline. To a certain degree, Windhaven tries to mitigate this risk by owning a wide variety of asset classes that are not perfectly correlated (or in some cases have zero or negative correlation).
- **Counterparty risk:** To the degree Windhaven portfolios own an Exchange-traded note (ETN), there is exposure to the credit risk of the issuer. ETFs also have some "product" or "structural" risk associated with them, as they will sometimes provide market exposure through indirect means, like futures, options and forwards contracts.
- **Custodial risk:** If the custodian of the account (chosen by the Client) were to go out of business, client assets may only protected up the SIPC limits.

**Tax Considerations:** Windhaven strategies are not designed to address specific tax objectives. Ongoing investment income, capital gains, capital losses, and miscellaneous deductions for some commodity ETFs are reported annually on the Schedule K-1, and when commodity ETFs are sold in a taxable account, proceeds will be reported on Form 1099-B. The Schedule K-1 is mailed separately to clients each year and needs to be included in the clients' income tax return. In cases where the entity generating the Schedule K-1 files for a tax extension beyond April 15, clients may receive their Schedule K-1 after the due date for their income tax return. Individual taxpayers who do not request a filing extension may need to file an amended federal and/or state tax return if they receive their Schedule K-1 after filing their original return. Also, gains and losses associated with some commodities may be taxed differently than standard short-term and long-term capital gains and losses. Please consult your professional tax advisor for help with your unique situation.

## **Disciplinary Information**

Windhaven and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

Windhaven is under common control with Schwab. Schwab is a wholly owned subsidiary of The Charles Schwab Corporation ("CSCorp"), a Delaware corporation that is publicly traded and

listed on the NYSE (symbol: SCHW). Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services.

Charles Schwab Investment Management, Inc. (“CSIM”) provides advisory and administrative services to certain proprietary mutual funds marketed under the Schwab Funds® name and under the Laudus® name, which may be recommended to Windhaven clients. CSIM also acts as the separate account manager for the equity strategies in the Managed Account Connection™ program (“MAC”) client accounts. MAC is a wrap-fee program sponsored by Schwab. MAC client accounts are managed by CSIM. CSIM utilizes Schwab Equity Ratings® research provided by Schwab as well as, among other things, CSIM’s own specialized software models to screen stocks for potential inclusion or exclusion in MAC client accounts.

If a client’s account is custodied at Schwab, Windhaven may use money market funds of Windhaven’s affiliate, CSIM, for which CSIM receives investment advisory fees. For more information about CSIM fund expenses, investment management, and sweep features associated with a client’s money market fund, please review the prospectus, which can be found at [www.schwab.com/prospectus](http://www.schwab.com/prospectus).

Windhaven serves as a portfolio manager in a number of wrap fee programs. The list of programs includes, but is not limited to: (i) Smith Barney - IMS; (ii) Wells Fargo – Private Access Network; (iii) Charles Schwab & Co., Inc. – Managed Account Access; (iv) Charles Schwab & Co., Inc. – Managed Account Connection, (v) Merrill Lynch - SPA (“Wrap Sponsors”) and (vi) UBS-MAC. These wrap fee programs are arrangements in which investment advisory services, brokerage execution services and custody are provided by a sponsor for a single predetermined "wrap" fee (regardless of the number of trades completed by a client). Sometimes, the Windhaven investment advisory fee is charged separately from the Wrap Sponsor fee. Generally, clients participating in a wrap fee program (“Wrap Program Clients”) pay this single, all-inclusive fee quarterly to the program sponsor, based on the net assets under management. Accounts enrolled in the Merrill Lynch SPA program pay their wrap fee in advance where other wrap programs will pay their fee in arrears. Windhaven receives from the program sponsor a portion of the wrap fee for the portfolio management services it provides. Each program sponsor has prepared a brochure which contains detailed information about its wrap fee program, including the wrap fee charged. Copies of each brochure are available from the program sponsor upon request. Wrap Program Clients should note that Windhaven may execute transactions for their accounts through the Wrap Sponsor if directed by the client or Wrap Sponsor. Transactions executed through a Wrap Sponsor may be less favorable in some respects than Windhaven’s clients whose trades are not executed through the Wrap Sponsor. This is because Windhaven may not have the ability to negotiate price or take advantage of combined orders or volume discounts. Windhaven may be constrained in obtaining best execution for Wrap Program Clients by sending trades to the Wrap Sponsor.

Schwab may effect equity securities transactions for clients in the Managed Account Programs on an agency basis.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Windhaven has adopted a written Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 to prevent conflicts of interest as well as the appearance of conflicts of interest. Windhaven owes a fiduciary duty to its clients to avoid activities, interests, and relationships that run contrary to the best interests of its clients. Windhaven will place clients’ interests ahead of Windhaven’s, engage in personal investing that is in full compliance with Windhaven’s Code, and avoid taking advantage of Windhaven’s position. The Code prohibits employees from trading in certain securities and also places restrictions on employees making personal investments in securities traded by clients, in initial public offerings, and in private placements. Employees are required to (1) pre-clear certain personal securities transactions, (2) report personal securities transactions on at least a quarterly basis, and (3) provide Windhaven with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest. A copy of Windhaven’s Code is available upon request.

## **Brokerage Practices**

Windhaven seeks to obtain the best execution for clients’ portfolio transactions by applying several factors to ensure the trade is in the client’s best interest. The overriding objective of Windhaven’s trade allocation procedure is to achieve fair and equitable treatment of its clients. Windhaven’s procedure is designed to ensure that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client over another, and that over time our client accounts are treated equitably, even though a specific trade may have the effect of benefiting one account over another when viewed in isolation. A trader will not aggregate transactions unless he or she believes such aggregation is consistent with his or her duty to seek best execution for a client and is consistent with the terms of the investment advisory agreements. Trades for clients will be made by Windhaven following a proprietary model that involves periodically rebalancing trades that may be executed in blocks with orders on behalf of other clients. Windhaven may, but will be under no obligation to, aggregate purchase or sell orders for a client account with purchase or sell orders in a particular security for other client accounts (“Batching”). Circumstances may arise where Windhaven determines that, while Batching may be both desirable and appropriate, there may be a limited supply or demand for the security or other investment. Under such circumstances, Windhaven will seek to allocate such investment opportunities fairly and equitably over time, but Windhaven cannot assure equality of treatment among all of its clients or assure that each such opportunity will be proportionally allocated among participating accounts according to any particular or predetermined standards or criteria. When Batching, Windhaven may, consistent with its policies and procedures and fiduciary duties, include proprietary or employee accounts in an aggregated order.

Step-outs - In seeking best execution for portfolio transactions on behalf of its clients, Windhaven from time to time may instruct the broker-dealer that executes a transaction to allocate, or “step out” a portion of or the entirety of such transaction to another broker-dealer (the “stepped-out broker”). The stepped-out broker would then settle and complete the designated portion of the transaction, and the executing broker would then settle and complete the remaining portion of the transaction that has not been “stepped out.” At times, there may be multiple stepped-out brokers

receiving portions of a trade. Each broker-dealer may receive a commission or brokerage fee with respect to that portion of the transaction that it settles and completes. Certain program sponsors and directed brokers are unable to accommodate step out trades.

Due to system constraints, there may be instances from time to time when Windhaven cannot complete all trades for all program accounts for the same security or securities during the same day. When it is not possible for Windhaven to complete all trades for all program accounts during the same day, Windhaven will use a process to allocate executed trades pro-rata across program model portfolios. There may be some variations in allocations based on account size and security price due to full share allocation methodology. The remaining portion of the trade will be executed the following business day(s) at Windhaven's discretion.

Schwab, a related person of Windhaven, is a registered broker-dealer that effects securities transactions for its brokerage customers. Schwab may act as a broker-dealer in transactions in a client's account. Whether or not a client has selected Schwab as custodian, Windhaven may execute some or all portfolio transactions through Schwab and/or Schwab's designated market makers (together, the "Directed Firm") when feasible and to the extent consistent with best execution practices. Although the Directed Firm will not charge commissions or commission equivalents in connection with transactions in a client's portfolio custodied with the Directed Firm, there may be other costs or expenses associated with the use of the Directed Firm. This may create a potential conflict of interest, because Schwab may have referred the client to Windhaven, because Schwab is an affiliate of Windhaven, and because of the arrangements Schwab has with its designated market makers.

Windhaven will evaluate the quality and cost of services received from broker-dealers/custodians on a periodic and systematic basis. As part of the evaluations, Windhaven will consider the quality and cost of services available from alternative broker-dealers, market makers, and market centers. The determinative factor is whether the transaction represents the best qualitative and quantitative execution for the client at fair value and at the lowest commission. Windhaven considers the full range and quality of the broker's service in selecting brokers to meet best execution obligations, and may not pay the lowest commission rate available. These things being equal or fairly equal among brokers, the following qualitative factors, among others, are considered when performing Windhaven's periodic and systematic evaluation of its brokerage arrangements and the execution quality of client trades:

- Ability to maintain the confidentiality of trading intentions
- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Liquidity of the securities traded
- Willingness to commit capital
- Percentage of trades executed in specific asset class YTD and MTD
- Ability to place trades in difficult market environments
- Ability to access a variety of market venues
- Expertise as it relates to specific securities
- Broker-dealer's financial condition
- Broker-dealer's business reputation

## **Review of Accounts**

Client accounts are reviewed on an annual basis by Windhaven investment professionals. The annual reviews typically focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. Under Windhaven's supervision, reviews of accounts custodied at Schwab may be assisted by Schwab personnel.

Windhaven sends clients quarterly reporting packages which include the quarterly report with investment positions and performance data and Windhaven's quarterly newsletter. Clients may also access their account information, quarterly newsletters, and additional interim correspondence via Windhaven's website, ([www.windhaveninvestments.com](http://www.windhaveninvestments.com)). Clients also receive monthly or quarterly statements from their custodian and may access their accounts via their custodian's website. The custodian's website will have the custodian's monthly or quarterly statements, as well as daily information.

## **Client Referrals and Other Compensation**

Windhaven may recommend that clients establish brokerage accounts with Schwab, a registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts. Schwab provides Windhaven with access to its institutional trading and operations services, which are typically not available to Schwab investors. Schwab's services include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to Windhaven other products and services that benefit Windhaven but may not benefit clients' accounts. Some of these other products and services assist Windhaven in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information, and other market data; facilitate payment of Windhaven's fees from its clients' accounts; and assist with back-office support, recordkeeping, and client reporting. Many of these services generally may be used to service all or a substantial number of Windhaven's accounts, including accounts not maintained at Schwab. Schwab may also provide Windhaven with other services intended to help Windhaven manage and further develop its business enterprise. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services to Windhaven by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to Windhaven.

Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, Windhaven may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. Windhaven nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Windhaven's other clients.

Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

## **Custody**

Due to Windhaven's affiliation with Schwab, Windhaven is deemed to have custody of client accounts held at Schwab as a qualified custodian. In order to comply with the custody rule, Windhaven obtains an annual copy of Schwab's internal control report, including an opinion from an independent public accountant with respect to the related person's controls relating to custody of the client assets. In addition, Windhaven will obtain a surprise examination from an independent public accountant covering all accounts custodied at Schwab. A portion of Windhaven's clients' accounts are held in custody by unaffiliated broker-dealers or banks, but Windhaven can access many clients' accounts through its ability to debit advisory fees. For this reason Windhaven is considered to have custody of these client assets, but is exempt from the surprise examination requirement. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by Windhaven.

## **Investment Discretion**

When clients choose Windhaven as their investment manager, they will need to sign the custodian's Limited Power of Attorney ("LPOA") or applicable new account paperwork giving Windhaven authorization to make trades in their account.

Windhaven's investment management discretion is exercised as follows:

1. Discretion is limited to the purchase and sale of securities and investment of cash, and not to distributions of cash or securities.
2. Investments will not exceed the client's funds in the account, unless the client has established a custodial margin account.
3. Windhaven has determined that it is generally in the client's best interest to execute security transactions at the client's custodian due to ease of obtaining information, services provided (personnel and software) and cost of execution. Clients may elect to custody their accounts at any custodian but the selection of a custodian may or may not put the client at a disadvantage for getting the best execution for their trades.

## **Voting Client Securities**

Windhaven has adopted written proxy voting policies and procedures (the "Procedures"). For proxies voted by Windhaven on behalf of each client who delegates voting authority to Windhaven ("Delegating Clients"), procedures may be changed as necessary to comply with regulatory requirements and internal policies and procedures and are designed to maximize the economic benefit to Delegating Clients. Windhaven has retained a third party vendor to manage this process and reviews the vendor's own written policies no less than annually to determine consistency in the Procedures and with Windhaven's fiduciary duty to Delegating Clients.

For proxy issues deemed by Windhaven portfolio management staff to raise significant concerns, Windhaven reviews the analysis and recommendation of the vendor. Examples of factors that could cause a matter to raise significant concerns include, but are not limited to: issues whose

outcome have the potential to materially affect a company's industry, or regional or national economy, and matters which involve broad public policy developments which may similarly materially affect the environment in which the company operates. After evaluating all such recommendations, Windhaven decides how to vote the shares and will instruct the vendor to vote consistent with its decisions.

To address any potential conflicts of interest, Windhaven votes proxies of affiliated mutual funds and ETFs in the same proportion as the vote of all other shareholders of the mutual fund or ETF (i.e., "echo vote"), unless otherwise required by law. When required by law, Windhaven also "echo votes" proxies of unaffiliated mutual funds and ETFs. When not required to "echo vote," Windhaven delegates to the vendor responsibility for voting proxies of unaffiliated mutual fund in accordance with the vendor's procedures.

Windhaven clients can get a copy of the Procedures and information about how Windhaven has voted their securities in a particular proxy vote by calling Windhaven Compliance at (617) 960-5300 or emailing [compliance@windhaveninvestments.com](mailto:compliance@windhaveninvestments.com). The information will be provided at no charge.

Delegating clients may not direct voting in a particular solicitation. Clients wishing to retain the ability to vote proxies must submit a separate form to their custodian.

## **Financial Information**

Windhaven does not require prepayment of fees more than six months in advance, and therefore is not required to provide a balance sheet for its most recent fiscal year. Windhaven has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.