

Emerald Fixed Income Advisers

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September 30, 2013

This Brochure describes the qualifications and business practices of Emerald Fixed Income Advisers ("EMFINC"). If you have any questions about the contents of this Brochure, please contact us at (610) 260-6240 or adler@pmga.com. This Brochure and its contents have not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

EMFINC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of EMFINC should be considered carefully in your decision to hire or retain us to provide advisory services. Additional information about EMFINC is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Material Developments at EMFINC

Since the date of our last annual ADV amendment in September 2012, there have been no material developments in our business.

Future Disclosures

In the future, this section of the Brochure will address only “material changes” since our last delivery or posting on the SEC’s public website. In the past we have offered or delivered information about our qualifications and business practices to clients at least annually. Going forward, we will ensure that you receive a summary of all material changes to this Brochure within 120 days of our fiscal year-end or more frequently if necessary.

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Item 4 – Advisory Business

Who We Are

Emerald Fixed Income Advisers (“EMFINC”) is an investment management and advisory firm specializing in U.S. dollar-denominated fixed income portfolios. We have provided discretionary advisory services to institutional clients and high net-worth individuals since 2006. EMFINC assets under management were \$134 million as of September 30, 2013.

We apply a conservative, disciplined investment approach and seek to outperform benchmark indices through a combination of ‘quantitative’ and ‘fundamental’ tools. Our investment programs include:

- Fixed Income Core-Government/Credit
- Fixed Income Core-Aggregate
- Fixed Income Intermediate
- Fixed Income Short Government

We also use a number of other strategies that stem from the primary strategies listed above including inflation-protected portfolios, custom portfolios, liability driven portfolios, and balanced portfolios utilizing ETFs as the equity component. Our portfolio management team has worked together for more than 20 years serving institutional investors and high net worth individuals.

Ownership History

EMFINC is a joint venture between PMG Advisors, LLC and Emerald Advisers, Inc. Emerald Advisers is the principal owner of EMFINC. Both PMG Advisors, LLC and Emerald Advisers, Inc. are registered investment advisers with the SEC. Emerald Asset Management is the parent company of Emerald Advisers, Inc.

Please refer to Item 8 which describes our investment philosophy and portfolio strategies in greater detail.

Item 5 – Fees and Compensation

Our Fees

EMFINC fees are based on the market value of assets under management and are billed quarterly for services performed in the previous quarter. Asset-based fees represent the sole form of compensation we receive.

Our current annual fee schedule is as follows:

Core-Government/Credit, Intermediate, and Core-Aggregate Fixed Income:

0.375% on the first \$10million

0.325% on the next \$25 million

0.25% on the excess over \$25 million

Short Government Fixed Income:

0.25% on the first \$10 million

0.20% on the next \$25 million

0.15% on the excess over \$25 million

Account Minimums and Fee Variation

The minimum account size is \$10 million for Core-Government/Credit, Intermediate and Short Government fixed income portfolios. The minimum account size is \$20 million for Core-Aggregate portfolios; the minimum for this strategy is higher to ensure proper diversification of assets which include mortgage-backed securities. We do make exceptions and accept new accounts with assets below the stated minimum; in these cases, fees are subject to negotiation. We also negotiate fees for accounts that meet stated account minimums based on special circumstances.

Factors that we consider in the negotiation process include client service requirements, complexity of investment strategy, and initial or potential size of the account. Fee variances may also reflect account inception dates or the entirety of the client's relationship with EMFINC and its investment partners. In all cases, we strive to charge fair and market competitive fees.

EMFINC Fee Arrangements

PMGA is a minority owner of Emerald Fixed Income Advisers, LLC ("EMFINC"). Under the contractual terms of this relationship, certain employees of PMGA provide investment management services to EMFINC and their fixed income clients, who are predominately public funds and municipalities. PMGA and EMFINC fee schedules are the same, guided by a fee sharing agreement between both firms subject to reevaluation on an annual basis. The fee agreement does not impact the advisory services or fees paid by clients whose assets are managed under this arrangement.

EMFINC also engages in fee negotiation, subject to approval by a PMGA Managing Director. Please see Item 10 for more information about the EMFINC relationship.

Brokerage Commissions and Other Account Fees

In addition to EMFINC advisory fees, clients pay brokerage commissions, transaction fees, and other related costs and expenses. In rare circumstances, we may use Exchange Traded Funds (“ETFs”) for certain custom portfolios which may involve additional fees. ETFs are investment funds traded on stock exchanges. An ETF holds assets such as stocks, commodities, or bonds, and trades close to its net asset value over the course of the trading day. Most ETFs track an index, such as the S&P 500.

Clients may also incur certain charges imposed by their custodians such as custodial fees, transfer taxes, wire transfer and electronic fund fees, among other fees and taxes. These charges and fees are in addition to EMFINC’s fee, and are not controlled by or paid to EMFINC.

Account Billing Terms

Fees are generally billed on a quarterly basis in arrears; in some cases, fees are billed one quarter in advance. Fees are prorated for each capital contribution and withdrawal made during the calendar quarter (with the exception of de minimis contributions and withdrawals). All fees are billed directly to the client; under no circumstances is EMFINC authorized to deduct fees directly from client accounts.

Each written client advisory agreement describes fee arrangements. If fees are payable in advance, a pro-rated portion is returned if the advisory agreement between EMFINC and the client is terminated before the expiration of the current quarter. The advisory agreement may be terminated by either party at any time with 30 days advanced notice. Clients may terminate our services without fee or penalty within five business days of the execution of the advisory agreement.

Item 6 – Performance-Based Fees and Side-By-Side Management

Performance-Based Fees Performance-based fees are based on a share of capital gains on or capital appreciation of the assets held within a client account. EMFINC does not charge any performance-based fees; all fees are based on the market value of assets under management.

Side-by-Side Management

All EMFINC client portfolios are separately managed accounts. We do not offer mutual fund or hedge fund investment programs.

Item 7 – Types of Clients

Clients We Serve

We provide fixed income asset management services to institutional clients and high net-worth individuals. Institutional clients include, but are not limited to, pension and profit sharing plans, public funds, charitable institutions, hospitals, municipalities, government agencies, and insurance companies.

Ongoing Client Service

Our fixed income products are managed by the Investment Committee, however each client portfolio is assigned to a Managing Director to ensure adherence to specific client guidelines. Ongoing communication is vital to successful, long-term client relationships and our ability to discharge our fiduciary duties. All clients receive reports quarterly and we meet with clients on a regular basis to ensure that we adhere to their objectives.

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

Investment Strategies

We manage four primary investment strategies. Each strategy is guided by a unique duration target range and performance benchmark. Duration is the “length” of a fixed income security best explained as a weighted-average measurement to maturity of the bond’s cash flows. Each interest payment on the bond is assigned a present value which in total comprises a percentage of the bond’s full price.

Years ago, Salomon Brothers first explained duration using a see-saw analogy. Picture a series of tin cans equally spaced on a see-saw; each can represents a scheduled interest payment for a bond while the contents of each can represents the cash flow associated with the payment. Duration would be the distance to the fulcrum that would balance the see-saw. In general, the weighted average distance from the fulcrum (duration) increases as the stated maturity of a security is extended on the yield curve. Duration, as a measure of risk, decreases as coupon payments are increased and/or the yield of the bond rises.

Our primary investment strategies include:

- **Fixed Income Core-Government/Credit** - highly liquid, investment grade portfolios benchmarked against the Barclays Government/Credit Index. Duration ranges from 4 to 6 years and sector allocations are based on technical analysis and relative performance models.
- **Fixed Income Core-Aggregate** - highly liquid, investment grade portfolios benchmarked against the Barclays Aggregate Index. Duration ranges from 3.5 to 5.5 years and sector allocations are based on technical analysis and relative performance models.
- **Fixed Income Intermediate** - highly liquid, investment grade portfolios benchmarked against the Barclays Intermediate Government/Credit Index. Duration ranges from 3 to 4.5 years and sector allocations are rotated based on technical and relative performance analysis.
- **Fixed Income Short Government** - U.S. Treasury and U.S. Agency portfolios benchmarked against the Barclays 1-3 Year Government Index. Duration ranges from 1 to 3 years and maximum maturity of individual securities is typically under five years.

We also use a number of other strategies that stem from the primary strategies listed above that include inflation protected portfolios, custom portfolios, liability driven portfolios, and balanced portfolios utilizing ETFs as the equity component. Details of these strategies follow:

- **Fixed Income Intermediate Broad Market:** highly liquid, investment grade portfolios benchmarked against the Barclays Intermediate Aggregate Index. Duration ranges from 2.5 to 4.5 years and sector allocations are rotated based on technical and relative performance analysis.
- **Fixed Income Intermediate High Grade:** highly liquid, investment grade portfolios benchmarked against the Barclays Intermediate A+ Government/Credit Index. Duration ranges from 2.5 to 4.5 years and sector allocations are rotated based on technical and relative performance analysis.
- **Fixed Income Low Duration:** U.S. Treasury and U.S. Agency portfolios benchmarked against the Barclays 1-3 Year A+ Government/Credit Index. Duration ranges from 1 to 3 years with maximum maturity of individual securities typically under 5 years.
- **Fixed Income Inflation Protected:** portfolios benchmarked against the Barclays U.S. Government Inflation-Linked Bond Index. Portfolios within the composite will normally have an average duration that is plus or minus 25 percent of the benchmark.
- **Balanced:** the fixed income portion of portfolios is comprised of highly liquid, investment grade securities benchmarked against the Barclays Intermediate

Government/Credit Index. Duration ranges from 3 to 4.5 years and sector allocations are rotated based on technical and relative performance analysis. The equity portion of portfolios is comprised of I shares of the Russell 1000 ETF.

In 2010, we changed the name of the Core Fixed Income strategy to the Core-Government/Credit Fixed Income strategy, and the Broad Fixed Income strategy to the Core-Aggregate Fixed Income strategy. The purpose of these product name changes was to allow easy comparison to competitive offerings in the marketplace. We made no changes to product strategies, benchmarks, or risk profiles.

Our Investment Philosophy

We believe that the role of a fixed income portfolio in an asset allocation model is to act as an "anchor" to the overall risk profile, provide a deflation hedge, and achieve returns above the benchmark index with similar volatility. We have developed a conservative, disciplined approach to managing fixed income investments which meets those needs. We base investment decisions on proprietary analysis of trends in the fixed income markets. We avoid extreme duration bets, complex derivative securities, and non-investment grade securities. All EMFINC investment strategies are considered "long only" which means that we do not engage in the practice of selling securities short. We do not use margin or derivatives.

Active Management

EMFINC is an active fixed income manager which means that we may buy and sell securities frequently if necessary to adjust the risk profile of each client portfolio. Although each portfolio maintains core investments held longer than one year, we do actively trade a portion of most client portfolios in line with the parameters of client mandates. Average annual portfolio turnover for actively managed client accounts typically exceeds 100%. Frequent trading may detract from investment returns in the short run by increasing transaction-based fees. We believe these short-term costs are more than offset by long-term principal protection.

Our Investment Process - Methods of Analysis

We use a conservative, disciplined investment approach and seek to outperform benchmark indices through a combination of 'fundamental' and 'quantitative' tools. We apply fundamental analysis to determine the most favorable portfolio structure. Fundamental analysis is a function of monetary and fiscal policy as exercised by the Federal Reserve Bank and Congress, respectively. Together they influence the level of interest rates in the capital markets over time. We also use fundamental analysis to determine a sector or security's value by focusing on underlying factors that affect a sector or company's business and future prospects. We then identify quantitative trends in the marketplace to guide interest rate and sector allocation decisions. Quantitative or technical analysis is based upon extensive statistical study of market data over time, primarily price and volume patterns. This is a dynamic process and portfolios are actively re-balanced to leverage changing market trends.

Portfolio strategy is based on current market conditions, not forecasts. We utilize economic and price momentum models and relative performance analysis of the fixed income markets together with fundamental analysis of the global economy, domestic/foreign monetary policy, and inflation expectations to determine:

1. **Portfolio interest rate risk** - We normally vary the portfolio's duration within a year of the benchmark index.
2. **Sector weightings** - We over/under weight sectors (U.S. Treasury, U.S. Agency, Agency mortgage-backed, Corporate, etc.) in the portfolio versus the benchmark based on the relative value of each sector.
3. **Security selection** - We utilize only investment grade securities and perform our own internal credit review in selecting specific issuers and security structures.
4. **Yield curve positioning** - We utilize 'bullet', 'barbell', and 'ladder' maturity structures to capture relative changes in the yield curve. More information about these strategies is available upon request.

All of the above tools allow us to actively manage client portfolios to achieve above-benchmark returns with limited swings in portfolio prices. Although the Investment Committee manages all investment strategies, each client portfolio is assigned to a Managing Director to ensure adherence to specific client guidelines. Each client portfolio is structured to meet unique client objectives associated with risk tolerance, investment time horizon, liquidity requirements, and other client-directed portfolio guidelines.

Cash Management

EMFINC generally holds a cash position of less than 5% in client portfolios. Idle cash is swept overnight into a money market fund selected by the client at the time they enter into an agreement with the custodian.

Cash or cash equivalents may be used as part of a duration strategy. In cases of an inverted yield curve, or extremely low or negative real interest rates, cash (or a U.S. Treasury Bill) may be used as a part of a barbell strategy. Normally, the shortest securities we own in client portfolios are one year maturities.

We manage custom portfolios that only permit investments in cash equivalent securities rather than a money market account. These investments include U.S. Treasury Bills, and U.S. Agency, and Corporate securities maturing in 18 months or less. EMFINC does not use repurchase agreements in client portfolios.

How EMFINC Helps Clients Manage Risk

We recognize that our clients have a wide array of investment managers to choose from. Our goal is to consistently deliver positive relative investment returns and minimize risk while helping our clients achieve their investment objectives.

The following factors help us manage risk in client portfolios:

- 1) **We are specialists** –our primary focus is managing fixed income portfolios;
- 2) **Quality focus** – our investment portfolios are concentrated in high quality, highly liquid securities;
- 3) **Diversification** – we rely on tested asset allocation models and proven security selection processes to achieve diversification;
- 4) **Self reliance** – PMGA is 100% employee owned; we maintain singular focus upon our clients and rely predominantly on internal research and proprietary technology to make investment decisions;
- 5) **Team approach** – we have collaborated as an investment team for more than 20 years to deliver our very best thinking;
- 6) **Long history** – our investment professionals have been managing client portfolios for an average of 32 years during diverse economic environments over many business cycles;
- 7) **Relationship driven** – we communicate regularly with clients to ensure ongoing need awareness;
- 8) **Constant attention** – we monitor client portfolios on a continuous basis;
- 9) **Conservative** – we take a cautious approach to all aspects of our business from investment management to operations and compliance.

Risk of Loss

We believe that clients face three primary levels of risk when investing in the capital markets:

- **Resource selection** – risks associated with investment manager selection
- **General market risk** – risks of participating in the capital markets
- **Specific risk** – risks associated with selecting asset classes, sectors, and security types

Despite our risk management experience, investing in securities involves risk of loss. Below we highlight the primary risks of investing in the capital markets in general and fixed income securities in particular. There may be other investment risks not mentioned below.

- *Risk of Loss* - Investing in securities involves risk of loss that clients should be prepared to bear.
- *No guarantee* - Performance of any investment is not guaranteed. There is a risk of loss of the assets we manage that may be out of our control.
- *Market Fluctuation* - Financial markets and the value of investments vary substantially over time, which may lead to realized and unrealized losses in the value of client portfolios, especially in the short run.
- *Fixed Income Securities* - Investments in fixed income (debt or bond) securities typically decrease in value when interest rates rise. This risk is usually greater for longer-maturity debt securities. Investments in debt securities with lower credit ratings (and non-rated credits) are subject to a greater risk of loss to principal and interest than those with higher credit ratings.
- *Credit Risk* - Also called default risk, credit risk quantifies the likelihood of non-repayment of principal and/or interest as scheduled by the bond issuer.

- *Income Risk* - Risk that an investment strategy designed to generate a sufficient income stream fails to produce adequate income, resulting in the inability to sustain a desired cash flow and/or the need to sell assets to produce desired income.
- *Liquidity Risk* - Risk that investors may not have full access to their funds if assets cannot be converted into cash according to normal market settlement standards. Liquidity risk is generally higher for small capitalization stocks, alternative assets, and private placement securities.
- *Prepayment Risk* - Risk associated with early payment of principal and interest by the issuer. This risk may be reflected in mortgage-backed securities wherein the owner of underlying assets may prepay principal and interest, thereby shortening its duration or stated maturity. For callable bonds, if interest rates fall, a bond issuer may decide to pay off (or "call") outstanding bonds and issue new bonds that pay a lower rate.
- *Mortgage-backed Securities* - A mortgage-backed security (MBS) is an asset-backed security or debt obligation that represents a claim on the cash flows from mortgage loans through a process known as securitization. The monthly cash flow of an MBS is not known in advance, and therefore presents risk to MBS investors of early prepayment.
- *Company Risk* - Risk that the business plan of a company in whose securities we invest is poorly conceived or poorly executed by senior management, or that the company fraudulently misleads the investment community as to its financial condition, either historically or prospectively.
- *Exchange Traded Funds ("ETFs")* - The market price of an ETF's shares may trade at a discount to net asset value, an active secondary trading market may not exist, or trading may be halted by the exchange on which it trades. These factors may hinder our ability to timely sell an ETF at a fair price. ETFs also have embedded fees and expenses which are borne by the investor. ETFs may be used in balanced portfolios.

Item 9 – Disciplinary Information

As an SEC-registered investment adviser, we are required to disclose all material facts about any legal or disciplinary events that would be material to your evaluation of PMGA or the integrity of our management team. EMFINC has no disciplinary information to report.

Item 10 – Other Financial Industry Activities and Affiliations

Arrangements with Other Advisers

PMGA is a minority owner of Emerald Fixed Income Advisers, LLC ("EMFINC"). Under the contractual terms of this relationship, certain employees of PMGA provide investment management services to EMFINC and their clients consistent with their other day-to-day activities. A fee sharing agreement between firms is subject to reevaluation each year. The fee agreement does not impact the advisory fees paid by clients under this arrangement.

Conflicts of Interest

PMGA receives an economic benefit (fees) due to our affiliation with the third party advisers and broker-dealers noted above. Upon disclosing these conflicts of interest to you, we manage them by: (1) applying a standard fee schedule to ensure that client fees are fair across all channels; (2) using a trade allocation process so clients managed under the same investment strategy receive equal percentage allocations of securities regardless of channel; (3) employing a portfolio review and client service model which treats all clients individually and fairly across all channels; and (4) following a rigorous compliance program to meet our fiduciary duties for all client accounts.

Item 11 – Code of Ethics

Ethical Standards of Conduct

We value client trust and place our fiduciary responsibilities to each client first and foremost in all aspects of our business. EMFINC has adopted a Code of Ethics for all employees which outlines our high standard of business conduct, and reinforces each employee's role in discharging the firm's fiduciary duty to clients. The EMFINC Code of Ethics includes provisions for maintaining confidentiality of client information, prohibitions on insider trading and spreading rumors, restrictions on the acceptance of material gifts, requirements to report certain gifts and business entertainment items, and procedures for personal securities trading, among others. All employees must acknowledge in writing each year their commitment to the terms of the Code of Ethics.

Personal Trading

EMFINC employees generally refrain from buying or selling for their personal accounts the fixed income securities that we buy and sell for our clients. Nonetheless, under the terms of the Code of Ethics, EMFINC employees may trade for their own accounts in securities which are recommended to and/or purchased for clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees do not interfere with (a) making decisions in the best interest of advisory clients and (b) carrying out such decisions while still allowing employees to invest for their own accounts. Though rare, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between EMFINC and our clients.

Related Accounts

EMFINC does not manage 'related accounts' for the benefit of the firm or any of our employees.

To receive a copy of our Code of Ethics, contact Natalie Adler by phone at 610-260-6240 or e-mail adler@pmga.com.

Item 12 – Brokerage Practices

Broker Selection

For most client portfolio transactions, we have discretion to select brokers and negotiate commissions. Exceptions do apply under directed brokerage arrangements and for accounts managed under broker-sponsored investment programs.

EMFINC maintains a list of approved broker-dealers with whom the Trading Desk may transact business across all trading venues, including electronic platforms. All changes to the broker-dealer list must be approved in advance of trade execution by a Managing Director or the Chief Compliance Officer. Each year, an outside research firm independently reviews broker-dealers to evaluate their best execution capabilities. This review considers:

- Financial statements
- Public reports
- Historical PMGA trade volume reports
- Perceived contribution to successful implementation of PMGA's investment strategy
- Regulatory trade execution reports
- EMFINC's operational settlement and clearance experience

Electronic Trading

For corporate fixed income trade execution, we use the MarketAxess trade platform. This electronic system is comprised of more than 20 dealers who simultaneously respond to trade inquiries. In seeking best execution, we submit transaction inquiries directly into the system and separately contact a select group of regional brokers who do not participate on the MarketAxess platform. Our Trading Desk also uses Bloomberg BondTrader, an electronic multi-dealer system for government and agency trading. Market conditions and transaction type (block size, sector, and security type) influence trade execution decisions on a day-to-day basis. The Trading Desk follows a written trade policy to ensure that we consistently do what is best for our clients.

Trade Aggregation and Rotation

EMFINC trades all accounts managed to the same style as a 'bunched' trade whenever possible. Trades are allocated pro-rata based on a target percentage, which allows all accounts, both large and small, to benefit equally. In most cases, trade aggregation improves transaction prices and lowers commission rates. We seek the best combination of price and execution for each transaction. To determine the broker's overall best qualitative execution capabilities we consider, among other things: (1) order size; (2) broker's ability to effect and settle trades promptly and efficiently; and (3) broker's reliability, integrity, and financial condition.

Where possible, we aggregate wrap and non-wrap client trades to achieve best execution, in which case wrap accounts may not always pay commissions. When trading corporate bonds, we generally 'step out' wrap transactions (meaning we trade away from the wrap sponsor), allowing us to aggregate wrap and non-wrap transactions to achieve best execution. If aggregation is not possible, we strive to trade wrap and non-wrap transactions simultaneously to achieve equitable pricing and minimize performance differences across accounts.

We generally execute trades on an 'all-or-none' basis so that no account is disadvantaged in the trade allocation process. If necessary, however, the Managing Director is authorized to reallocate an original trade order to protect the best interests of clients. Trade aggregation does not interfere with EMFINC's ability to comply with client account restrictions.

Soft Dollars

In allocating trades and commission dollars to brokers, EMFINC also considers their research services. We are permitted by law and with certain restrictions to cause a client to pay a broker or dealer providing us with brokerage and research services, commission fees in excess of the amount other brokers would charge for the same transaction. Sometimes we use brokers who provide useful research services even though a lower commission may be charged by another broker who does not offer research. Therefore, transactions will not always be executed at the lowest available price or commission when we consider these other qualitative factors. These excess commissions are known as 'soft dollar commissions.' We only use soft dollars if we determine in good faith that the greater commission is warranted in terms of either a particular transaction or our overall responsibility to clients.

A combination of hard and soft dollars is used to pay for research services that directly benefit our clients. As measure over the course of a year, we execute approximately 15% of trades on a soft dollar basis. We currently use the following soft dollar research services: Moody's Investors Service Corporate Credit Rating Services, Standard & Poor's Ratings Direct, Stone & McCarthy Research Associates Market Focus, Bloomberg, Elliot Wave International, and Gimme Credit Publications High Grade Credit information. Soft dollar research services are subject to change as we refine portfolio construction tools over time to best serve our clients.

We have adopted strict compliance policies to ensure that our use of soft dollars is consistent with our duty to obtain the best available execution and that research services represent fair and measurable value for our clients. Some, but not all soft dollar research services benefit the accounts which pay the commission to the broker providing such services. EMFINC does not attempt to direct a transaction in a particular account; instead, research services are obtained from brokers that we believe add value to a broad range of accounts, although perhaps not useful to every account in every case.

Our use of soft dollar commissions represents a conflict of interest to the extent that we might otherwise pay for such research services out of pocket with fee revenues rather than with client commissions. To minimize this conflict of interest, the Investment Policy Committee and Chief Compliance Officer regularly review commission rates to affirm their reasonableness.

Directed Brokerage

Certain clients may instruct us to trade all or a portion of their portfolio transactions with a designated broker-dealer. This practice is known as 'directed brokerage.' EMFINC accepts client directed brokerage as long as this arrangement does not materially undermine our ability to provide best qualitative execution for these clients. EMFINC does not negotiate commissions or volume discounts for clients under directed brokerage arrangements, and therefore clients must negotiate commission rates on their own behalf. These arrangements may disadvantage clients to the extent they pay a higher commission rate or receive less favorable execution than they would if EMFINC had full discretion to select brokers.

Under our trade policy, directed brokerage trades are executed after all discretionary trades are completed in the same security. During volatile markets, this delay in the timing of trade execution will result in trade price disparities versus aggregated client trades. At the present time, only a small percentage of clients request that we direct their business to a specific broker. Directed brokerage represents a conflict of interest to the extent that the broker directs clients to use services in exchange for the client's brokerage commissions. To fulfill our fiduciary duty for directed brokerage accounts, we compare trade execution prices and commission rates to all other accounts to evaluate fair treatment. Circumstances which put directed brokerage clients in a disadvantaged position are discussed with clients.

Principal and Cross Agency Transactions

In keeping with our mission to deliver unbiased advice, we do not trade for our own account, otherwise known as principal trading. It is our policy to refrain from engaging in agency cross transactions. An agency cross transaction occurs when the investment adviser acts as broker for the advisory client and the other party to the trade. EMFINC does not cross trades between client accounts. Agency cross transactions may also arise if an adviser is or affiliates with a broker-dealer. EMFINC is not a broker-dealer and has no broker-dealer affiliates.

Item 13 – Review of Accounts

Account Reviews

We review client portfolios on a daily basis for appropriateness of individual securities. Diversification and asset allocation reviews are conducted monthly, or more often as dictated by market events. We review client portfolios if there is a significant change to client investment guidelines or significant cash flow.

Account Review Responsibilities

Our fixed income products are managed by the Investment Committee. Each client is assigned to a portfolio team comprised of a Managing Director and an associate with primary responsibility for account reviews and maintenance. Portfolio teams rely on experienced support personnel to help fulfill these oversight duties. Managing Directors are available by telephone at any time to discuss investment strategies, portfolio construction, and client needs. Accounts are reviewed formally with clients in person on an agreed schedule.

Client Reports

EMFINC issues quarterly client reports which include portfolio holdings, performance, and investment strategy summaries. Asset Listings show current portfolio holdings by asset class and asset prices at market and cost. Performance reports compare client investment returns to recognized market performance Indices (e.g., Barclays Government/Credit Intermediate Bond Index, etc.). Clients may receive special reports on request. In addition to our reports, clients receive custodial reports from their custodians.

Portfolio Valuation

We review portfolio security prices on an ongoing basis to ensure accuracy. Portfolio security valuations directly impact our ability to meet client guidelines (such as those that limit exposure to a single security, sector, or asset class), fee calculations, tax liabilities, and buy and sell price points. Portfolio valuation represents a conflict of interest to the extent that EMFINC asset-based fees rise when valuations rise. To ensure accuracy and minimize conflicts of interest, we follow written procedures for portfolio valuation, which include the use of multiple independent pricing sources, and separate price reviews by the EMFINC Performance Analyst, Managing Director, and Chief Compliance Officer. More information about our valuation procedures is available upon request.

Item 14 – Client Referrals and Other Compensation

Use of Solicitors

We employ a dedicated Director of Marketing, who has been with EMFINC since 2006, to manage our marketing and client service efforts. We also periodically compensate third parties for referring investment advisory clients to our firm. The SEC has adopted strict rules for advisers when accepting third party referrals. We follow strict policies to ensure compliance with all aspects of these rules, including those governing compensation and written client disclosure. As permitted, we pay a portion of the management fee generated by the referred account for a period of time which tends to vary on a case by case basis. In all cases the referral fee is not paid by the client and does not impact the overall fee paid by referred clients.

Broker-Dealer Referred Accounts

Clients are referred to us by broker-dealers wherein PMGA receives written client approval to place brokerage transactions through the referring broker. In these cases, clients must negotiate brokerage commission rates with the broker as PMGA will not negotiate these rates on behalf of clients. As with other client directed brokerage arrangements, these practices present inherent conflicts of interest. Clients referred by broker-dealers may pay higher commissions and receive less favorable execution than otherwise might be the case; these practices may result in our inability to obtain volume discounts on certain transactions and may cause differences in charges among accounts. To fulfill our fiduciary duty for broker-dealer referred accounts, we compare trade prices and commissions to other accounts to evaluate fair treatment. Circumstances which put directed brokerage clients in a disadvantaged position are discussed with clients.

Item 15 – Custody

Custody occurs when an adviser or related person directly or indirectly holds client funds or securities, or has the ability to obtain possession of them. EMFINC does not maintain custody over client funds or securities. Clients are responsible for selecting custodians to hold funds and securities within investment accounts managed on their behalf. Our clients work with various banks, broker-dealers, and other qualified custodians who provide monthly or quarterly statements of all securities and funds held.

EMFINC prepares quarterly client account reports showing holdings, portfolio characteristics, and performance figures. We urge clients to carefully review and compare our quarterly reports to the account statements provided by their custodian, as custodial account statements are considered the official record for client accounts. EMFINC client reports may vary from custodial statements due to factors such as accounting procedures, reporting dates, and/or security valuation methods.

Item 16 – Investment Discretion

Clients generally delegate discretionary authority for investment decisions to EMFINC at the outset of an advisory relationship. In all cases, we exercise discretion in line with our high standards of fiduciary duty.

Client advisory agreements specify the level of discretion delegated to EMFINC. Most accounts are managed on a fully discretionary basis where we retain full decision making authority for investment decisions within the parameters outlined in the written client advisory agreement and the designated investment strategy. Client investment objectives, policies, limitations, and restrictions must be provided to us in writing.

If clients impose limits on our investment discretion, trade timing, prices, and performance results may deviate from other EMFINC accounts. To lessen these risks, we work closely with clients at the inception of the relationship and ongoing to accommodate their decision making involvement without negative impact on performance returns. We discuss with clients any circumstance in which we believe client discretion puts them at a disadvantage.

Item 17 – Voting Client Securities

At the present time, EMFINC does not buy or sell equity securities. Therefore, we do not have any authority to vote, nor do we vote proxies on behalf of our clients. Furthermore, we do not handle class actions on behalf of clients.

Item 18 – Financial Information

As an SEC-registered investment adviser, we are required to disclose information about EMFINC'S financial condition. We are pleased to report that EMFINC has no financial obligation that impairs the firm's capacity to meet contractual and fiduciary commitments to our clients, nor has the firm been the subject of a bankruptcy proceeding. An independent accounting firm prepares our financial statements and conducts account performance audits to comply with Global Investment Performance Standards.