

# Disclosure Brochure

April 1, 2013

## **Gavin Management Group, Inc.**

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This brochure provides information about the qualifications and business practices of Gavin Management Group, Inc. (hereinafter "GMG"). If you have any questions about the contents of this brochure, please contact Matthew Bacchiochi at (416) 861-1998. 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 Gavin Management Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Gavin Management Group, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since GMG's last annual update filed March 21, 2012. GMG does not have any material changes to disclose in this Item.

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## Item 4. Advisory Business

GMG provides financial planning, consulting, and investment management services. Prior to engaging GMG to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with GMG setting forth the terms and conditions under which GMG renders its services (collectively the “Agreement”).

GMG has been in business as an SEC registered investment adviser since June 28, 2006. GMG is principally owned by Tootstay, Inc.

GMG had \$74,842,472 of assets under management as of January 11, 2013, of which \$74,799,102, were managed on a discretionary basis and \$43,370 were managed on a non-discretionary basis.

This Disclosure Brochure describes the business of GMG. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of GMG’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on GMG’s behalf and is subject to GMG’s supervision or control.

### Financial Planning and Consulting Services

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GMG may provide its clients with a broad range of comprehensive financial planning and consulting services.

In performing its services, GMG is not required to verify any information received from the client or from the client’s other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. GMG may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if GMG recommends its own services. The client is under no obligation to act upon any of the recommendations made by GMG under a financial planning or consulting engagement or to engage the services of any such recommended professional, including GMG itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of GMG’s recommendations. Clients are advised that it remains their responsibility to promptly notify GMG if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising GMG’s previous recommendations and/or services.

### Investment Management Services

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Clients can engage GMG to manage all or a portion of their assets on a discretionary basis and in limited circumstances clients can engage GMG to manage a portion of their assets on a non-discretionary basis.

GMG primarily allocates clients’ investment management assets among mutual funds in accordance with the investment objectives of the client. GMG also provides advice about any type of investment held in clients’ portfolios.

GMG also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, or other products that may not be held by the client's primary custodian. In so doing, GMG either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

GMG tailors its advisory services to the individual needs of clients. GMG consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. GMG ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify GMG if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon GMG's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in GMG's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### **Item 5. Fees and Compensation**

GMG offers its services on a fee basis, which may include fixed fees, as well as fees based upon assets under management.

#### **Financial Planning and Consulting Fees**

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GMG may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$5,000 to \$20,000 annually on a fixed fee basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. If the client engages GMG for additional investment advisory services, GMG may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging GMG to provide financial planning and/or consulting services, the client is required to enter into a written agreement with GMG setting forth the terms and conditions of the engagement. Generally, GMG requires one-half of the financial planning and/or consulting fee (estimated fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

## Investment Management Fee

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GMG provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by GMG. GMG's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. GMG does not, however, receive any portion of these commissions, fees, and costs. GMG's annual fee is prorated and charged monthly, in arrears, based upon the market value of the assets being managed by GMG on the last day of the month. The annual fee varies (between 0.25% and 1.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

GMG, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), GMG generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*") for investment management accounts.

GMG may only implement its investment management recommendations after the client has arranged for and furnished GMG with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, any other broker-dealer recommended by GMG, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to GMG's fee.

GMG's *Agreement* and the separate agreement with any *Financial Institutions* may authorize GMG to debit the client's account for the amount of GMG's fee and to directly remit that management fee to GMG. Any *Financial Institutions* recommended by GMG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to GMG.

## **Fees for Management During Partial Months of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between GMG and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. GMG's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to GMG's right to terminate an account. Additions may be in cash or securities provided that GMG reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to GMG, subject to the usual and customary securities settlement procedures. However, GMG designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. GMG may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge (although GMG does not receive any of these charges)) and/or tax ramifications.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

GMG does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7. Types of Clients**

GMG provides its services to individuals, trusts, estates, corporations and business entities.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

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GMG's primary method of analysis is fundamental.

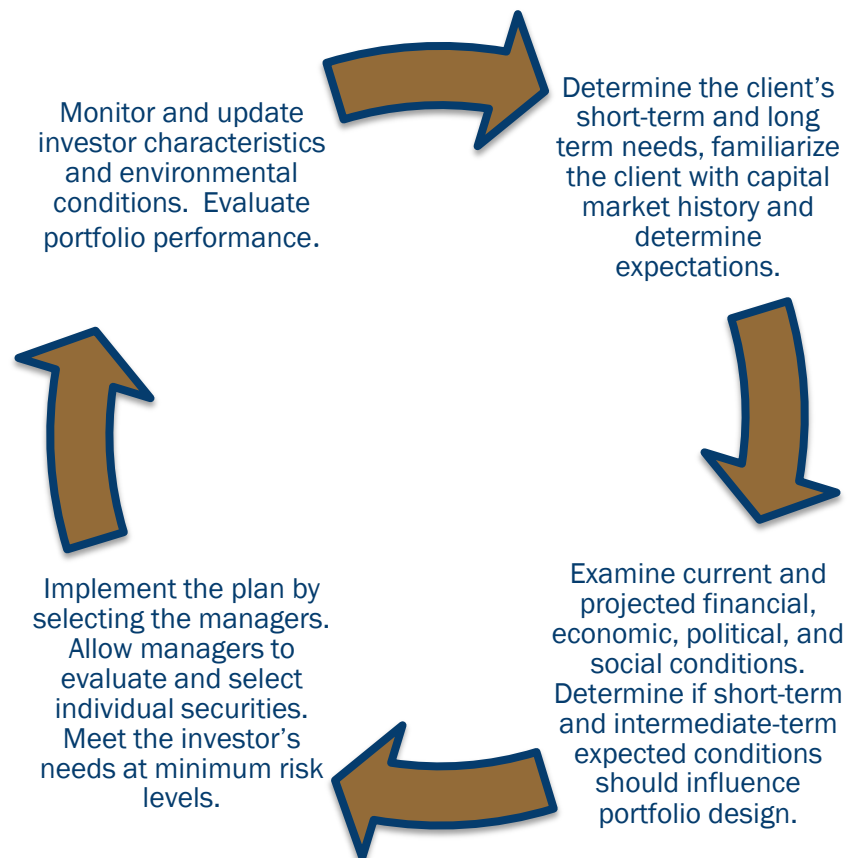
*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. GMG will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

## Investment Strategies

### *Asset Allocation Process*

When constructing client portfolios, GMG utilizes a proprietary process known as “The Asset Allocation Process.” This process divides the client’s assets into different classes, which determines most of the portfolio’s return variability over time. This process determines which classes to consider, weights to assign to each class, and the allowable allocation ranges. GMG’s responsibilities in the portfolio management process are to:

- Establish goals and objectives based on the investor’s personal characteristics and identify risk tolerance constraints;
- Identify the investment opportunity set;
- Select the appropriate management style;



- Produce long-term asset mix ranges; and
- Detect re-balancing requirements and tactical strategies to add value.



Unmistakably, this is a dynamic process. For further clarification, the accompanying diagram provides an optical portrayal of the activity.

### *Investment Philosophy*

In terms of an investment philosophy, the following tenets are key considerations by GMG when formulating a strategy for clients.

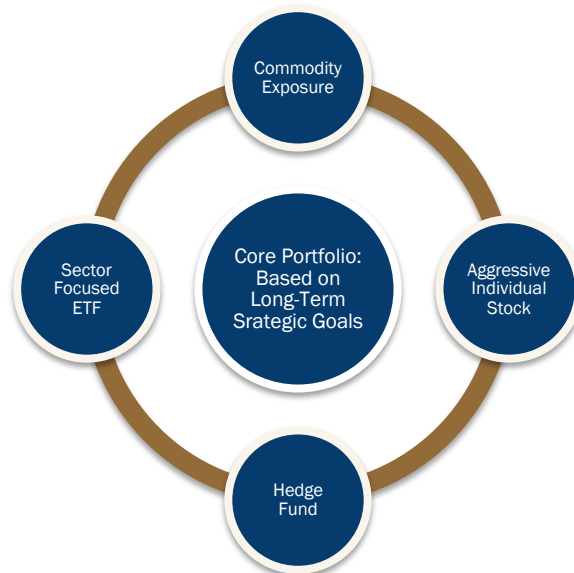
- *Asset Allocation* – Asset allocation accounts for over 90% of portfolio volatility. Understanding asset allocation is critical in developing a successful investment strategy. Strategic asset allocation is the practice of distributing investments across the different asset classes such as cash and fixed income, equities, alternative investments, real estate and commodities.
- *Diversification* – A portfolio that includes a diversified mix of non-correlated asset classes has the potential to generate higher returns while at the same time effectively managing risk. Global diversification provides access to superior growth rates and risk-adjusted returns. Risk is reduced because there is less correlation. Diversify among asset classes, securities, management styles, geographic regions, industries, capitalization and currency.
- *Management Expense* – All things being equal, lower costs lead to higher returns. Costs can never be recovered and their cumulative erosion of value can be highly detrimental. Investors should be aware of the impact fees have on the overall performance. In the long run, costs can make the difference between investment success and failure. Structuring investments to ensure tax deductibility of management expenses is also critical.
- *Taxation* – Equities are taxed more favourably than fixed income securities. Therefore, it is preferable to hold fixed income securities in tax-deferred accounts. Active management styles produce more taxable income as capital gains are realized frequently. However, GMG does not allow tax motivations to exclusively drive decisions.

### *Core-Satellite Approach*

Furthermore, GMG practice's a "Core-Satellite Approach" when building investment portfolios for clients. A traditional Core-Satellite portfolio consists of actively managed "Satellite" investments built around a passively managed "Core." GMG's approach is slightly different where the Core portfolio can employ active management as well.

The Core portfolio is reflective of a client's long-term strategic goals, and is comprised of assets based on the client's tolerance for risk. While seeking excess returns is a goal of the Core portfolio, risk reduction is the main focus. The Core portfolio is well diversified by country, asset class, industry sector, investment style and manager. Using quantitative and qualitative analysis, GMG analyzes current economic conditions, expected asset class returns, as well as correlations to build Core portfolios that minimize risk, but still have the ability to achieve excess returns.

While the Core portfolio controls relative risk, it does not address the challenge of managing absolute risk,



understood as a major decrease in the Core portfolio value. With the majority of the overall portfolio invested in the Core component, asset value will be dramatically impacted by severe market downturns. Satellite positions complement the Core portfolio and range from short-term tactical investments to long-term positions in investments uncorrelated with major asset classes. Satellite investments could include structured products, private equity, commodities, hedge funds, a single-stock holding or real estate, among other alternatives. Satellite investments increase return potential without putting undue stress on the overall portfolio. All portfolio investments, whether Core or Satellite, must be consistent with the client's risk/return objectives from a portfolio perspective – not as a single, stand-alone position. The diagram below further illustrates this approach.

### *Industry Sector Exposures*

In regards to diversification, GMG also emphasize “Industry Sector Exposures.” Industry factors have become an increasingly important component of security returns, and industry diversification now provides greater risk reduction than country diversification. Given the increasing geographical integration of markets, these phenomena should persist and even strengthen. This development has several implications for portfolio management:

- Unintended industry exposures that result from equity benchmarks that are biased toward the home market may result in increasingly inefficient allocations;
- Active global equity investment management will increasingly need to consider the risk-return trade-offs of global industry allocations in addition to country allocations; and
- Stock-selection opportunities may increasingly be found by comparing stocks across countries but within common global industries.

GMG uses quantitative analysis as a first step in choosing suitable candidates for client portfolios. Various risk/return metrics are employed to gauge a fund's relative success and each fund is ranked among its peer group using the proprietary screening score card.

### *End-Point Bias*

A common mistake in performance analysis is called "End Point Bias" – if the end point (the date on which the analysis ends) is particularly good, cumulative statistics may create the illusion of consistently good performance. Cumulative statistics are calculated through the most recent time period. Twelve-month or year-to-date returns as well as annualized returns for three, five, and seven years, for example, are often used to evaluate mutual funds. Due to the nature of these statistics, recent performance often "hides" past performance; such that an excellent (or lucky) short-term performance figure can make a manager's long-term track record look great. To eliminate end point bias, GMG uses rolling periods to calculate quantitative scores. Specifically, nine 3-year periods moving 3 months at a time are used to calculate the risk/return metrics. For each of the 9 periods, GMG calculates 6 different risk/return metrics deemed to be important characteristics of a successful mutual fund:

#### 1) Alpha

Alpha is a measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta. Beta is a measure of a portfolio's sensitivity to market movements. A positive Alpha figure indicates the portfolio has performed better than its beta would predict. In contrast, a negative Alpha indicates the portfolio has underperformed, given the expectations established by beta. There isn't a scale for Alpha. Basically, a positive Alpha means the portfolio did better than expected, and a negative Alpha means it did worse than expected. Alpha can be used to directly measure the value added or subtracted by a manager. Alpha depends on two factors: 1) the assumption that market risk, as measured by Beta, is the only risk measure necessary and 2) the strength of the linear relationship between the portfolio and the benchmark, as it has been measured by R-squared. In addition, a negative Alpha can sometimes result from the expenses that are present in a portfolio's returns, but not in the returns of the comparison index. In computing Alpha, Morningstar deducts the risk-free return from the total return of both the portfolio and the benchmark index. Morningstar calculates a monthly measure of Alpha and then annualizes it to put it in a more useful one-year context.

Jensen's alpha = Portfolio Return - [Risk Free Rate + Portfolio Beta \* (Market Return - Risk Free Rate)]

$$\alpha_J = R_i - [R_f + \beta_{iM} \cdot (R_M - R_f)]$$

#### 2) Standard Deviation

Standard Deviation is the statistical measurement of dispersion about an average, which depicts how widely a stock or portfolio's returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns that is most likely for a given

investment. When a stock or portfolio has a high standard deviation, the predicted range of performance is wide, implying greater volatility. This is probably the most commonly used statistic used by investors to gauge the riskiness of an investment. If the returns for a stock or portfolio follow a normal distribution, then approximately 68% of the time they will fall within one standard deviation of the mean return, and 95% of the time within two standard deviations. For example, if the mean annual return is 10% and the standard deviation is 2%, you would expect the return to be between 8% and 12% about 68% of the time, and between 6 and 14% about 95% of the time. Morningstar calculates standard deviation for stocks and portfolios using the trailing monthly total returns for the appropriate time period. All of the monthly standard deviations are then annualized.

In the case where  $X$  takes random values from a finite data set  $x_1, x_2, \dots, x_N$ , with each value having the same probability, the monthly standard deviation is:

$$\sigma = \sqrt{\frac{(x_1 - \mu)^2 + (x_2 - \mu)^2 + \dots + (x_N - \mu)^2}{N}}$$

### 3) Upside/ Downside Capture Ratio

Upside Capture Ratio measures a manager's performance in up markets relative to the market (benchmark) itself. To calculate the up capture, we first form new series from the manager and benchmark series by dropping all time periods where the benchmark return is zero or negative. The up capture is then the quotient of the annualized return of the resulting manager series, divided by the annualized return of the resulting benchmark series. An investment manager who has an up capture ratio greater than 100 has outperformed the index during the up-market. For example, a manager with an up-market capture ratio of 120 indicates that the manager outperformed the market by 20% during the specified period. The down capture is calculated analogously.

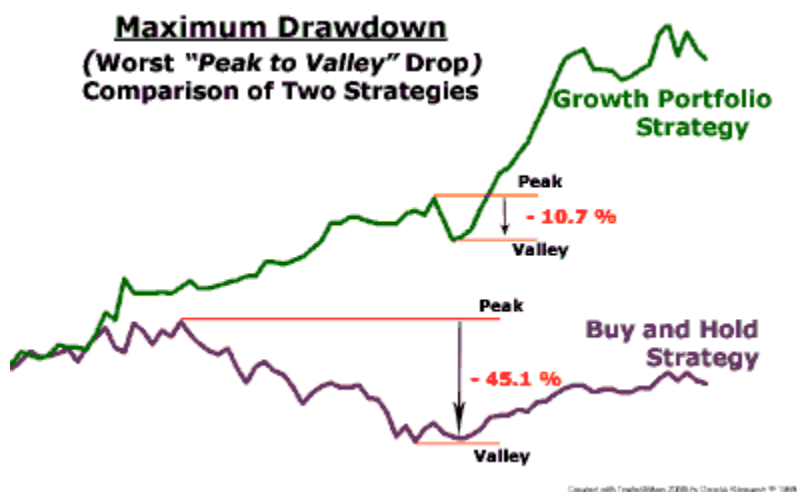
$$\text{Upside Capture Ratio} = \frac{\text{Annualized Up-Market Return of Fund}}{\text{Annualized Up-Market Return of Benchmark}} \times 100$$

While Downside Capture may not appear on many quantitative scorecards as a risk/return metric, it is of significant importance to GMG. While strong returns in positive markets are important, protection in weak or falling markets is a higher priority. Mutual funds with strong downside capture ratios (i.e. low – which means they provide significant protection during falling markets) are especially appealing.

### 4) Maximum Drawdown

Maximum Drawdown is the maximum loss (compounded, not annualized) that the manager ever incurred during any sub period of the entire time period. Conceptually, the calculation looks at all sub periods of

the time period in question and calculates the compound return of the manager over that period. The maximum drawdown is the minimum of zero and all these compound returns. The line graph below shows a comparison of two different strategies and their respective maximum drawdowns. Obviously, mutual funds that exhibit smaller drawdowns are more appealing.



### 5) Information Ratio

The Information Ratio is the ratio of portfolio returns above the returns of a benchmark (usually an index) to the volatility of those returns. The information ratio (IR) measures a portfolio manager's ability to generate excess returns relative to a benchmark, but also attempts to identify the consistency of the investor. This ratio will identify if a manager has beaten the benchmark by a lot in a few months or a little every month. The higher the IR the more consistent a manager is and consistency is an ideal trait.

$$IR = \frac{E[R - R_b]}{\sigma} = \frac{\alpha}{\omega} = \frac{E[R - R_b]}{\sqrt{\text{var}[R - R_b]}}$$

where;

R is the portfolio return

R<sub>b</sub> is the benchmark return

$\alpha = E[R - R_b]$  is the expected value of the active return, and

$\omega = \sigma$  is the standard deviation of the active return (tracking error)

### 6) Quantitative Analysis

The aforementioned quantitative ranking of mutual funds is an effective and efficient way to filter out "the good from the bad," and reveal potential candidates. Equally important is Qualitative Analysis. While a

fund may rank first overall in its respective asset class category, it may not necessarily be a good “fit” for a client portfolio. Although quantitative analysis takes care of the Performance, qualitative analysis helps answers questions related to the other three Ps: People, Philosophy, and Process.

From the extensive quantitative and qualitative analysis, a short list of “approved” mutual funds is created. Mutual fund analysis is a dynamic process. Individual mutual funds in client portfolios are monitored closely. GMG promotes a long-term investment approach and discourages short-term trading. However, GMG will not hesitate to remove mutual funds from client portfolios if necessary. The following list gives examples of why GMG may remove a mutual fund from a client portfolio:

- Portfolio needs rebalancing; ie. an asset class weight has exceeded its threshold.
- Change in client’s personal investment characteristics deems an investment or the asset mix unsuitable.
- Addition or subtraction from portfolio management team.
- Quantitative rank deteriorates (volatility increases, performance drops, etc.)
- Change in investment process or strategy.

From the list of suitable managers, GMG will assemble a mix to create a Portfolio Aggregate. As the name suggests, the Aggregate is a portfolio of investments or indexes created by assigning a weight to each investment.

This consolidated report allows GMG to determine whether the proposed managers/funds combine to create a portfolio that is suitable given the client’s individual characteristics, required rate of return objectives, and risk constraints. GMG will make comments on each of the following statistics to help the client gain an understanding of the risk controls that are associated with the proposed portfolio and also the potential weaknesses or threats that can potentially make the portfolio vulnerable to drawdowns:

- *Manager Style Bias* – Any one style can randomly drift in or out of favour;
- *Capitalization Weights* – Small and mid-cap stocks are historically more volatile;
- *Asset Mix* – Cash and Bonds will contribute to return stability but have lower return expectations;
- *Geographic Exposures* – Discussions involve risk-return trade-off of emerging markets; currency risk, political influences, GDP growth rates, accounting standards, etc.;
- *Equity Sector Exposure* – A 20% threshold is imposed on any one sector to avoid concentration risk and make certain that each sector is represented when performance leadership rotates;
- *Portfolio Statistics* – Dividends contribute significantly to equity returns over time and provide a means to outperform in range-bound and sideways markets. GMG also prefers portfolios that

have lower valuations, higher margins, superior ROE/ROAs, and better cost of capital than the benchmark;

- *Fixed Income Data* – GMG explains the concept of duration and interest-rate sensitivity and observe the opportunities among the different quality of issuers;
- *Performance and Return Data*: Emphasis is placed on the Up Side Capture and Down Side Capture results, as well as the quarterly return data to help the client gain an understanding on consistency and in some instances the patience and commitment required to be an investor in the equity markets. Naturally, past performance does not indicate or guarantee future results;
- *Rolling Returns* – This diagram allows the investor to visually understand that longer holding periods help smooth out returns and extended measurement periods are more useful to gauge capital preservation attributes;
- *Risk-Return Scatter Plot* – This toll is effective for understanding that a portfolio that is positioned in the north-west quadrant is better from a risk-return perspective; and
- *Holding Analysis* – GMG reviews the individual companies that appear in the top twenty-five holdings to make certain that there is little duplication and that there is a variety of sectors represented in the top twenty-five positions.

### Risks of Loss

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#### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at

least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Options*

Options allow investors to buy or sell a security at a contracted “strike” price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Market Risks*

The profitability of a significant portion of GMG’s recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that GMG will be able to predict those price movements accurately.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

## **Item 9. Disciplinary Information**

GMG is required to disclose the facts of any legal or disciplinary events that are material to a client’s evaluation of its advisory business or the integrity of management. GMG does not have any required disclosures to this Item.

## **Item 10. Other Financial Industry Activities and Affiliations**

GMG is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. GMG has described such relationships and arrangements below.



## Related Investment Counsel Portfolio Manager

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GMG is under common control with GMG Private Counsel Inc. (“*GMGPC*”), a registered investment counsel and portfolio manager with the Ontario Securities Commission. *GMGPC* provides services to Canadian citizens or residents, some of which may also be clients of GMG. Certain *Supervised Persons* of GMG also serve in the same or similar capacity for *GMGPC*.

## Receipt of Insurance Commission

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Certain of GMG’s *Supervised Persons*, in their individual capacities, are also licensed insurance agents with various insurance companies in Canada. None of these *Supervised Persons* sell insurance products to the firm’s investment advisory clients for a commission.

## Item 11. Code of Ethics

GMG and persons associated with GMG (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with GMG’s policies and procedures.

GMG has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). GMG’s *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by GMG or any of its associated persons. The *Code of Ethics* also requires that certain of GMG’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

When GMG is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the

markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated above.

Clients and prospective clients may contact GMG to request a copy of its *Code of Ethics*.

### Item 12. Brokerage Practices

As discussed above, in Item 5, GMG generally recommends that clients utilize the brokerage and clearing services of *Fidelity*.

Factors which GMG considers in recommending *Fidelity* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Fidelity* enables GMG to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Fidelity* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by GMG's clients comply with GMG's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where GMG determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. GMG seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

GMG periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct GMG in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and GMG will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by GMG (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, GMG may decline a client's request to direct brokerage if, in GMG's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Transactions for each client generally will be effected independently, unless GMG decides to purchase or sell the same securities for several clients at approximately the same time. GMG may (but is not

obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among GMG’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among GMG’s clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that GMG determines to aggregate client orders for the purchase or sale of securities, including securities in which GMG’s *Supervised Persons* may invest, GMG generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. GMG does not receive any additional compensation or remuneration as a result of the aggregation. In the event that GMG determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account’s assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, GMG may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist GMG in its investment decision-making process. Such research generally will be used to service all of GMG’s clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client’s portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because GMG does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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GMG may receive from *Fidelity*, without cost to GMG, computer software and related systems support, which allow GMG to better monitor client accounts maintained at *Fidelity*. GMG may receive the software and related support without cost because GMG renders investment management services to clients that maintain assets at *Fidelity*. The software and support is not provided in connection with securities transactions of clients (i.e., not “soft dollars”). The software and related systems support may benefit

GMG, but not its clients directly. In fulfilling its duties to its clients, GMG endeavors at all times to put the interests of its clients first. Clients should be aware, however, that GMG's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence GMG's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, GMG may receive the following benefits from *Fidelity* through the Fidelity Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### Item 13. Review of Accounts

#### Account Reviews

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For those clients to whom GMG provides investment management services, GMG monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom GMG provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by one of GMG's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with GMG and to keep GMG informed of any changes thereto. GMG contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

#### Account Statements and Reports

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts.

Those clients to whom GMG provides financial planning and/or consulting services will receive reports from GMG summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by GMG.

## Item 14. Client Referrals and Other Compensation

### Client Referrals

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GMG is required to disclose any direct or indirect compensation that it provides for client referrals. GMG does not have any required disclosures to this Item.

### Other Economic Benefits

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In addition, GMG is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

## Item 15. Custody

GMG's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize GMG through such *Financial Institution* to debit the client's account for the amount of GMG's fee and to directly remit that management fee to GMG in accordance with applicable custody rules.

The *Financial Institutions* recommended by GMG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to GMG. Clients should carefully review the statements sent directly by the *Financial Institutions*. s

## Item 16. Investment Discretion

GMG is given the authority to exercise discretion on behalf of clients. GMG is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. GMG is given this authority through a power-of-attorney included in the agreement between GMG and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). GMG takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and
- When transactions are made.

### Item 17. Voting Client Securities

GMG is required to disclose if it accepts authority to vote client securities. GMG does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions* and may contact GMG with any questions by calling the number on the cover of this Disclosure Brochure.

### Item 18. Financial Information

GMG is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- GMG does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- GMG has not been the subject of a bankruptcy petition at any time during the past ten years.

**Gavin Management Group, Inc.**

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