



Morton Capital Management Part 2A of Form ADV The Brochure

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This Brochure, the Part 2A of Form ADV (“Disclosure Brochure” or “Brochure”), is required under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). It is an important document between Clients (referred to as, “you” or “your”) and Morton Capital Management (referred to as, “us”, “we”, “our”, or “MCM”). This Brochure gives you information about our qualifications and business practices. Along with the oral and written communications we provide to you, you may use this information to evaluate us (and other advisors) in deciding whether or not to hire us or to continue to maintain a mutually beneficial relationship.

If you have any questions about the contents of this brochure or would like another copy, please contact us at 818-222-4727. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Morton Capital Management is a registered investment advisor with the SEC. However, SEC registration does not imply any level of skill or training.

Additional information about MCM is also available on the SEC’s website at: www.adviserinfo.sec.gov. On the website, select “investment adviser firm” and type in our firm name. Results will provide you with both Parts 1A and 2A of our Form ADV.

II. Material Changes

Since our update in March 2013, Scott Shlecter and Angela Raitzin resigned as employees and as members of the Investment Committee.

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IV. Advisory Business

At Morton Capital Management, we provide customized investment advisory services. Our goal is to build long-term relationships based on trust. We start by listening and then we design and implement an investment strategy that takes into account your unique needs: time horizon, risk tolerance, goals, and concerns. We place an emphasis on managing risk with the objective of reducing volatility. Also, we choose not to accept commissions from any source. Instead, we operate on a fee-only basis, since we believe this allows us to provide you with more objective advice.

We were founded in 1981, and registered as an Investment Advisor in 1983. In July 2006, Pacific Capital Bank, N.A. purchased the name and assets of MCM. All principal members of the firm responsible for ongoing investment management services remained the same and continue to serve. In 2011, Pacific Capital Bank changed its name to Santa Barbara Bank and Trust, N.A. (“SBBT”). On December 1, 2012 SBBT merged with Union Bank, N.A. (UB). These changes have not materially affected MCM’s business operations.

Generally, we provide investment services on a discretionary basis.¹ For more information on discretion, please see Section XVI, “Investment Discretion.” These services usually include, but are not limited to:

- We analyze your current financial situation and prior investment experience;
- We help you set goals to determine your appropriate time horizon, investment objectives, and amounts of money needed to accomplish investment goals;
- We review your risk profile to help define your tolerance for risk;
- We design and implement an asset allocation strategy by selecting what we feel are appropriate asset classes and then determining how to allocate investable funds among those asset classes. (We primarily use no-load mutual funds, structured notes, alternative assets and, sometimes on larger accounts, separate account money managers);
- We monitor performance of funds or managers;
- We report to you on a quarterly basis and perform ongoing analysis of your portfolio’s performance;
- We modify and rebalance your portfolio, based on your changing needs and our analysis of your portfolio performance;
- We assess applicable market and economic conditions;
- We will meet with you by telephone or in-person as you prefer;
- We can provide lifestyle and retirement planning, college funding ideas, and charitable giving strategies; and
- We can assist with estate analysis and advice, including multi-generation education and transition planning.

¹ “Discretionary basis” means that we have the power to buy and sell securities in your accounts without previously notifying you. However, we will make decisions based on appropriate investment strategy for you and restrictions that you give us. In certain limited circumstances, we may also provide services on a limited discretion or nondiscretionary basis.

It is important to us to establish trust and maintain a long-term relationship with you. As described above, we customize our advisory services to your individual needs. Also, you do have the option to impose reasonable restrictions on the types of securities in which we invest for you.

As of December 31, 2012, we managed \$1,008,759,102 on a discretionary basis on behalf of approximately 676 clients and managed \$123,576,491 on a non-discretionary basis on behalf of approximately 67 clients.

V. Fees and Compensation

We are compensated for our services on a fee-only basis. All advisory fees are negotiable.

You may choose from one of the following three fee options. The fee schedule below is an excerpt from our current Investment Advisory Agreement²:

“Option 1 - Standard Fee: Percentage of the Net Asset Value: (Minimum account size \$500,000)
Based on the net asset value of the Account³ as of the end of the preceding calendar quarter, to be paid quarterly:

100 basis points (1%) per annum on the first \$2,000,000
75 basis points (3/4 of 1%) per annum on the next \$3,000,000
50 basis points (1/2 of 1%) per annum on \$5,000,001 and above

Option 2 - Small Account: Percentage of the Net Asset Value: (Accounts between \$250,000 and \$499,999)

Based on the net asset value of the Account as of the end of the preceding calendar quarter, to be paid quarterly:

125 basis points (1.25%) per annum on amounts between \$250,000 and \$499,999.

On amounts above \$499,999, fees shall be same as Option 1.

Option 3 - Standard Fee: Fixed Fee. \$_____ per year, to be paid quarterly. The amount of the fee shall be re-negotiated every _____ years.” These fees are subject to negotiation.

We bill for fees on a quarterly basis, and base fees on your account's asset value as of the last business day of the prior quarter. The fees are automatically deducted directly from your account unless you request a direct bill. Fees are generally due in advance, on the first day of the quarter. Following is an example of how a standard advisory fee is calculated:

Market Value on March 31 st (end of quarter)	\$1,000,000
Annual 1% Advisory Fee (divided by 4)	<u>X 0.25%</u>

² The Investment Advisory Agreement is the contract for services between us and you.

³ “Account” in this case is the consolidation of all of your accounts.

Amount of Quarterly Fee for April to June	\$2,500
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If we open your account during the quarter, we may prorate fees for the period it was under our supervision. If you close your account during the quarter, we will prorate fees from the first day of the quarter to the date you notified us in writing that you were terminating our services. We will mail you a check or credit your account for the fee refund due to you. The following is an example of how a pro-rated fee would be calculated:

Account opening value on February 28 th	\$1,000,000
Period of time being billed	31 days
Annual Advisory Fee of 1% divided by 12	0.0833%
Amount of Pro-rata Fee for 1 st Quarter	\$833

The advisory fees we charge are in addition to any management or other fees charged internally by the managed separate accounts, mutual funds, structured notes, hedge funds, private money managers, or other investment providers that you may invest in through us. Our advisory fees are also in addition to any transaction or custodial fees charged by your account's custodian (generally Charles Schwab and Company). For more information on custodians and brokerage, please see the "Brokerage" section of this brochure. Our advisory fees are usually paid in advance, but never more than six months prior to performance of services.

For certain clients, we also manage a separate investment vehicle called Negative Correlation Partners, LLC ("NCP"). (See Section VII for more information.) We charge an annual advisory fee of 1% to Negative Correlation Partners, LLC. This fee is deducted from the NCP account quarterly. To avoid potential duplication of fees, we exclude the market value of NCP when calculating our advisory fees. The following is an example of how a quarterly advisory fee would be calculated for a client who is invested in NCP:

Market Value as of March 31 st	\$1,000,000
Value of Negative Correlation Partners LLC on 3/31	\$200,000
Net Billable Market Value	\$800,000
Annual 1% Advisory Fee divided by 4	<u>X 0.25%</u>
Amount of Quarterly Advisory Fee	\$2,000

Also, the contract (Investment Advisory Agreement) between you and us is terminable-at-will by either you or us upon receipt of written notice to the other party.

VI. Performance Based Fees and Side-by-Side Management

Performance based fees are fees based on a share of capital gains or capital appreciation of the assets of a clients. An adviser charging performance fees to some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a

performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g. an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or allocate or sequence trades in favor of, the account that pays a performance fee. We do not charge any performance-based fees.

VII. Types of Clients

Our official minimum account size is \$250,000. However, our services are targeted mainly for accounts of over \$1,000,000 and we limit the number of smaller accounts that we choose to accept. Based solely on our discretion, we may waive the account minimum or change the advisory fee for an account.

We have three main types of advisory clients:

- 1. High net worth individuals and families, including individual retirement accounts**
- 2. Sponsors of employee benefit plans**
- 3. Foundations and charitable trusts**

We also provide investment advice to one pooled investment vehicle, NCP. NCP is a limited liability company formed for the purpose of providing investors with the opportunity to invest in a diversified pool of hedge funds and other alternative investments. A related entity, Morton Management, Inc., serves as Managing Member to NCP. MCM is the investment advisor and receives a management fee for its services. This management fee is disclosed above in Section V, “Fees and Compensation” of this Brochure. All fees will reduce investment returns. Currently, MCM clients who have a portion of their assets invested in NCP are not charged MCM advisory fees on the amount invested in the proprietary fund.

VIII. Methods of Analysis, Investment Strategies and Risk of Loss

Our methodology for selecting an appropriate portfolio strategy is based on our understanding of your financial circumstances and risk tolerance, combined with widely accepted principles of modern portfolio management as developed since the 1950s by highly respected business schools. The first step in our process is to have you complete an Investment Profile Questionnaire, which asks specific questions about your financial status, goals, investment experience and attitude towards investing. This questionnaire and a personal interview help us establish an asset allocation that we believe is suitable based on your responses.

We select an asset allocation target using the principles of modern portfolio management. These principles include concepts of diversification, statistical measurement of investment volatility and quantification of risk versus reward. Also, we diversify our investment portfolios with respect to asset classes and manager styles to minimize the risks associated with individual securities, specific asset class, style or manager. Since we are not aligned with any mutual fund or managed account investment companies, our approach is not influenced by monetary considerations

associated with proprietary products. However, it is worthwhile to note that while diversification can reduce specific investment risk, it cannot eliminate risk entirely. As such, every portfolio will have a potential for loss. Since investing in securities does involve risk of loss, you should be aware and prepared for losses.

We rely heavily on research materials prepared by others, including corporate rating services, investment banks, third party research firms, and corporate annual reports to stay current with economic and financial-market related news and developments. Also, we utilize financial fund web sites and/or online services such as Bloomberg to research and gather information on specific investments or market sectors as well as general economic and financial market conditions. Members of our asset management team, advisors and/or Investment Committee members also participate in quarterly or more frequent conference calls with mutual fund managers, market strategists and economists. Members of the research team may also attend conferences or conduct face-to-face interviews with managers.

The majority of our clients' portfolios are invested in retail and institutional-class mutual funds and ETFs (Exchange-Traded Funds). While evaluating investments, we use both objective data and more personalized assessments such as interviews in order to get a fuller evaluation. In other words, we use both quantitative and qualitative research in our decision making process to create an approved investment list. From a quantitative methodology, we consider such factors as

- the length of a manager's tenure,
- the investment's track record,
- its performance versus peers and benchmarks,
- fund research capabilities, portfolio concentration, tax-efficiency and expense ratios.

We also analyze performance using widely accepted statistical measures such as alpha, beta, standard deviation of return, and upside downside performance over varying timeframes using computer based, analytical tools. With respect to fixed-income managers, we consider additional factors such as portfolio credit quality, duration or interest-rate sensitivity, and portfolio liquidity.

Following our quantitative research process, our qualitative process includes the use of in-depth third party research and personal interviews to evaluate the suitability of the portfolio or fund manager for inclusion in our approved investment list. We focus our qualitative investigation on manager knowledge, discipline, passion, and shareholder orientation. Our bias is towards managers with established track records that exceed ten years in length and who demonstrate a consistent management style. Our process is ongoing with dedicated staff analysts carefully monitoring individual investment and total portfolio performance. When we learn that there is a change in management or strategy of a particular investment, we reinitiate the qualitative and quantitative assessment to determine if the investment is still suitable for inclusion in our clients' portfolios.

Based on our research, we believe that alternative investment strategies can add valuable diversification benefits to the portfolio that cannot be obtained through investments in stocks and bonds only. If you meet the financial requirements established by federal and state regulatory agencies to participate in these kinds of investments, we may present you with opportunities to

invest in limited liability companies and limited partnerships. These investments may include, among other things, hedging strategies, real estate equity, real estate loans and private equity (together “private funds” or “private investment funds”). With the exception of Negative Correlation, we will not act as general partner or managing member to these private funds. This is in order to avoid conflicts of interest. We also clearly disclose that these investments, unlike stocks and bonds that are regularly traded, can suffer from illiquidity, pricing inconsistencies and trading difficulties. As a consequence and in compliance with existing regulations, these investments require your approval before any investment is made in them for you.

Any client who subscribes, or proposes to subscribe, for an investment in a private fund must be able to bear the risks involved and must meet the fund’s suitability requirements. Some or all alternative investment programs may not be suitable for certain investors. No assurance can be given that a private fund’s investment objectives will be achieved. Private fund investments are typically speculative and involve a substantial degree of risk. Private funds are generally highly illiquid. There is generally no secondary market for the private funds we invest in and none should be expected to develop. There are restrictions on transferring interests in a private fund. A private fund is subject to various other risk factors and conflicts of interest. For further information regarding the risk factors and conflicts of interest with respect to a private fund in which you propose to invest or currently invest, please refer to the private fund’s offering memoranda.

Clients may also be invested in structured notes. Structured notes have a relative lack of liquidity due to the highly customized nature of the investment and rarely trade after issuance. Moreover, the full extent of returns from the complex performance features is not realized until maturity. Selling before maturity may be at a significant discount. Because of this, structured notes tend to be more of a buy-and-hold investment decision. Counterparty risk is another inherent risk with structured notes. A principal protected note is backed by the firm that issued the note. In the case of a bankruptcy of the issuer, the note holder would be repaid at a rate equivalent to other senior unsecured debt holders of the firm. Principal protected notes are not FDIC insured. Principal protection may also be contingent or “buffered” based upon a stated event occurring. Structured notes are typically priced on a matrix and not based on net asset value. For further information regarding the risk factors and conflicts of interest with respect to structured notes in which you are considering to invest or currently invest, please refer to the structured note’s offering documents.

When appropriate, we may employ options strategies for client accounts. Generally, we only employ options for large accounts. An option is a financial derivative contract which offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date). We will typically only employ options strategies defined as “Level 0” and “Level 1” by Charles Schwab & Co. These strategies include covered calls, which are designed to reduce the exposure of an existing equity position, and the purchase of options, which can result in the complete loss of premium paid for the underlying option.

We may invest for clients in options, including buying and writing puts and calls on some of the securities held by clients. Price movements of options contracts are influenced by, among other things, interest rates, demand for such products, trade and exchange control programs and other government policies, and national and international political and economic events. The value of

options depends upon the price of the underlying securities. Clients are also subject to the risk of the failure of any of the exchanges on which we trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities or other assets.

All investing involves a risk of loss and the investment strategies we offer could potentially lose money over any given period of time. While diversification is an important tool in reducing the unique risk associated with a single investment, it cannot completely protect against portfolio losses. While our research can indicate a reasonable expectation of loss over any 12 month period, stressed markets – as we experienced in 2008 and 2009 – can lead to larger than expected losses. We maintain regular communication with you because we understand your tolerance for risk and your financial circumstances can change and may require modification of the portfolio strategy.

Performance could be negatively impacted by a number of different market risks including but not limited to:

- Stock market risk, which is the chance that individual stocks will decline as a consequence of a general market decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- Non-diversification risk, which is the chance that the performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock.
- Management techniques used by us may not produce the desired results. This could cause accounts to decline in value.
- Interest rate risk which can cause the value of bonds to decline.
- Illiquidity risk which could mean that you cannot sell a particular investment when you wish.

Portfolio management is an inherently difficult task and there are no assurances that our management will be successful in achieving positive results.

IX. Disciplinary Information

Neither MCM as a firm, nor any of our current employees have been involved in any legal or disciplinary events in the past 10 years that we believe would be material to your evaluation of us or the people who work for us.

X. Other Financial Industry Activities and Affiliations

We are wholly owned by Union Bank, N.A. Union Bank, N.A. (UB) is publicly traded and operates as a community bank network throughout California, and provides a variety of trust and banking services.

At the time of the purchase by UB, all principals, all investment advisor representatives, advisory fees, operational personnel, support personnel, location, remained the same, even though the entity ownership changed.

Our investment personnel periodically meet (usually every Monday) to discuss potential investments, the current state of the market, and other relevant information. During these meetings, representatives from UB may participate. In addition, we may share information with UB and its affiliates related to asset allocation models and potential bond offerings, among other things. We feel this mutual exchange of ideas and information is beneficial to our clients. No individual client information is discussed during these meetings to assure protection of private information.

We have relationships with several entities that solicit or have solicited clients on our behalf. Please see Section XIV, “Client Referrals and Other Compensation,” for additional details.

We have a relationship with Charles Schwab & Company, Inc. Please see Section XII, “Brokerage Practices” and Section XIV, “Client Referrals and Other Compensation” in this Brochure for additional detail.

XI. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

In order to ensure that we maintain high ethical standards in our business practices, MCM has adopted a policy manual which includes a formal Code of Ethics. A copy of our Code of Ethics can be provided to you upon request by calling the telephone number on the Cover Page of this Brochure.

Our Code of Ethics requires, among other things, that Employees:

- Act with integrity and competence with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, and the interests of clients, above their own personal interests;
- Avoid any actual or potential conflict of interest;

- Conduct all personal securities transactions in a manner consistent with company policy, applicable laws, and ethical standards;
- Exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Maintain reasonable safeguards to protect client privacy; and
- Comply with applicable provisions of the federal securities laws.

Our employees and their families may sometimes buy and sell the same securities that we recommend and purchase for you, our client. In fact, we believe that it is important that we invest our personal funds in the same securities that we recommend to you. Since the dollar amounts of our personal transactions will generally be relatively small, we do not believe that our personal securities trading will negatively affect any position held by you.

However, if we buy or sell securities on the same day that we purchase them for you, there is a potential for a conflict of interest. Thus, to ensure that our personal trading does not negatively impact you, we have developed trading procedures for your protection. These procedures are in place so that we do everything reasonable to get you the best price possible on your securities transactions. Details on these procedures can be provided to you upon request. Among other things, we require that employees submit quarterly reports with all of their personal securities transactions. A member of our compliance staff checks these reports to ensure that we follow our internal policies, applicable trading laws, and that we put your interests ahead of our own.

We may purchase publicly traded UB common stock in our own accounts or on behalf of certain client accounts during open periods. In order to address potential conflicts of interest, our employees must receive pre-approval from the CCO or Chief Operating Officer (“COO”) prior to executing any transactions in UB common stock for any accounts, except for the client-instructed exercise of any warrants or rights offerings.

NCP pays an annual management fee to MCM. This fee is discussed previously in this Brochure in Section V, “Fees and Compensation.” Also, see Section VII, “Types of Clients,” for a discussion of the relationship between NCP and MCM. The fee arrangement is disclosed to investors in the offering memorandum prior to their investing.

If you choose to limit our discretion, any potential delay in approvals may cause employee trades to be placed ahead of your trades and could result in our employees receiving a better price.

XII. Brokerage Practices

In the past, we have usually recommended that you establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (“Schwab”), a registered broker-dealer, Member SIPC. We did this so that Schwab could maintain custody of your assets and effect trades for your accounts. Your account will be titled as you instruct us, presumably in your name. We are independently owned and operated and not affiliated with Schwab or any other broker-dealer.

When we evaluate a custodian, we look at several factors. These factors include:

- Quality of service
- Quality of execution
- Cost
- Availability of investment products
- Financial stability
- Quality of technical support
- Size

The Schwab arrangement benefits you by:

- reducing commission and/or transaction costs on stock and bond purchases (below what you might pay as a retail client of Schwab);
- providing better information flow due to computer downloading;
- providing a third-party custodian that holds your assets;
- providing an additional level of investment transparency, since Schwab will provide you with reports in addition to ours; and
- in limited cases, allowing “block” purchases of securities.

For our client accounts maintained in Schwab’s custody, Schwab generally does not charge separately for custody but is compensated by you through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. These commissions are determined by Schwab and are in addition to our advisory fees. However, Schwab provides us with access to its institutional trading and custody services, which are typically not available to Schwab’s retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor’s clients’ assets are maintained in accounts at Schwab Institutional, and are not otherwise contingent upon the advisor committing to Schwab any specific amount of business (assets in custody or trading). Schwab’s services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

We receive no commission from Schwab. However, we do have an arrangement of the type known as “soft dollars” with them. In this arrangement, Schwab identifies their profit on the block of business from our clients, and pays for certain research services for us based on this profit. The types of products and services paid for with soft dollars include research on mutual funds, investment newsletters, asset allocation and portfolio optimization research, economic data, securities pricing services, alternative assets research, and financial and estate planning research and services.

We receive a benefit from soft dollars because we do not have to produce or pay for the research, products and services we receive through the soft dollar arrangement. A soft dollar arrangement can also create a conflict of interest since it may also give us an incentive to select a broker-dealer based on our interest in receiving research or other products and services, rather than your interest in receiving best execution on your trades. We acknowledge our duty of best execution for you and for all of our clients. It is our practice to mail annually to our advisory clients a list of the

vendors who received compensation from soft dollar sources. Details of those services will be provided to you upon written request.

Also, we believe that all of our advisory clients benefit from the services received through soft dollars. We believe also that even though some securities transactions may be cheaper on some occasions through another custodian, the overall benefits of the research and brokerage services received through the Schwab relationship offsets any savings that would result from the use of a different custodian. From time to time, we will share the research products and services received through the soft dollar arrangement with our bank-parent company (UB), and affiliated investment advisors for the benefit of their respective clients.

Certain other services that we pay for with soft dollars are considered “mixed use” products, meaning that they are partially allocable to research and partially allocable to non-research. An example would be our portfolio accounting software maintenance fees, which we pay partially with soft dollars. The balance attributable to non-research is paid directly by us. Periodically, we will perform and document an analysis of the portion of “mixed use” products that are deemed to be appropriate for the use of soft dollars. This is how we determine how much we pay and how much is paid for with soft dollars. A conflict of interest may arise in the process of determining the allocation for a “mixed use” product. When performing the mixed-use analysis, we will lean toward allocating less to soft dollars to minimize this potential conflict of interest.

Also, we participate in the Schwab Advisor Network “Service”, which may raise potential conflicts of interest. Please see Section XIV “Client Referrals and Other Compensation” for details.

You may direct us to use a particular broker-dealer (however, MCM has the right to decline to be engaged as the investment advisor based on this circumstance) to execute some or all transactions for your account. In such an event, you will negotiate terms and arrangements for the account with that broker-dealer. We will not seek better execution services or prices from other broker-dealers for those transactions. Also, we will not be able to “batch” your transactions for execution through other broker-dealers with orders for other accounts managed by us. As a result, you may pay higher commissions or otherwise have higher costs, or receive less favorable net prices on transactions for the account than would otherwise be the case. In the event that you are referred to us by a broker-dealer, we have a potential conflict between your interest in obtaining best execution and our receiving future referrals from that broker-dealer.

If the same security is purchased on the same day on behalf of more than one client, the orders may be aggregated (block or bunched) if we believe the aggregation will be in the best interests of the participating clients. Such orders are generally allocated on a pro-rata basis. We may use an omnibus account when aggregating client securities transactions. Our full policy regarding procedures for aggregated orders is the most current version of our Policies and Procedures Manual. You may request a copy of the full procedure by calling us at the telephone number listed on the cover page of this Brochure.

Certain of our clients manage private investment funds that we may deem to be suitable investments for you or for our other clients from time to time. Neither we, nor any of our related

persons receive compensation from these or any other private investment funds for investing your funds or our own funds in them.

Certain private money managers may require that trades be done through a broker other than Schwab. In each instance, you will sign the required paperwork to open an account. Generally, any fees paid by you to outside managers are equal to or lower than these managers charge others who are not our clients.

XIII. Review of Accounts

Your investment advisor will review your accounts at least quarterly. Reviews are triggered by several possible events: receipt of quarterly performance reports, calendar follow-up, notification from you that your circumstances have changed, major changes at mutual funds on our approved list, or major economic/market conditions that cause us to review a particular asset class or fund and its continued viability for our clients.

There are 12 individuals responsible for account reviews:

- a. Lon Morton (President and CEO)
- b. Priscilla Brehm (Senior Vice President and CCO)
- c. Jason Naiman (Senior Vice President)
- d. Eric Selter (Senior Vice President, COO)
- e. Alan Kane (Senior Investment Advisor)
- f. Paul McDonald (Investment Advisor)
- g. Meghan Pinchuk (Vice President, Investment Advisor)
- h. Joe Seetoo (Senior Investment Advisor)
- i. Cathy Cash (Wealth Manager)
- j. Sasan Faiz (co-Chief Investment Officer)
- k. Jeffrey Sarti (Vice President, Investment Advisor)
- l. Angela Roper (Senior Research Analyst)

All individuals performing account reviews are investment advisors whose responsibilities include client services and portfolio review. They are instructed to supervise in accordance with

- the client's investment objectives, financial situation, prior experience and risk profile;
- the asset allocation strategy for the client;
- MCM Investment Committee guidelines as to approved securities; and
- MCM Investment Committee discussions of general economic and market factors.

You can expect to receive performance reports from us, usually on a quarterly basis (the frequency may vary depending on what you and we agree to do). In addition, you will receive monthly statements from the custodian who holds the assets, usually Schwab. You may elect to receive your notifications either via the Internet or with hard copy. The custodial reports contain a listing of current holdings with their current market value at the end of each month. Our reports will contain a list of your current holdings with our estimate of their market value as well as

performance of the account. We usually provide performance both at the account level and at the asset class level. Our quarterly reports will also normally include various benchmarks that you may use to assess your performance.

XIV. Client Referrals and Other Compensation

MCM compensates unaffiliated third parties for referring clients to us. Such referral fees generally consist of a percentage of the advisory fees earned by MCM. The referral fees represent no additional expense to such referred clients. MCM will seek to conform to Rule 206(4)-3 under the Advisers Act in all instances. We may also use affiliated persons (e.g., MCM employees) as solicitors and they may receive cash or non-cash compensation (e.g., vacations) for referring clients to us.

If you are introduced to us by an unaffiliated solicitor (i.e., a person or entity that is not an employee, officer or director of MCM), the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide you with a copy of our written Brochure, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between us and the solicitor, including the compensation to be received by the solicitor from us.

We have entered into an agreement with Charles Schwab & Co., Inc, an independent and unaffiliated broker-dealer, to participate in the Schwab Advisor Network (“the Service”), an advisor referral service designed to help investors find an independent personal Investment Manager in their area. We receive client referrals from Schwab through our participation in the Schwab Advisor Network. Although not required by the Service, advisors that receive referrals from the Service are likely to execute transactions for their advisory clients referred through the Service with Schwab. The conflict of interest arises due to the fact that we may be more likely to use Schwab due to our interest in receiving referrals from them. This would be in conflict with your interest in receiving best execution. Again, we acknowledge our duty of best execution for you and for all of our clients.

Schwab is a broker-dealer independent of and unaffiliated with us. Schwab does not supervise us and has no responsibility for our management of clients’ portfolios or our other advice or services. We pay Schwab fees to receive client referrals through the Service. Our participation in the Service may raise potential conflicts of interest described below.

We pay Schwab a Participation Fee on all referred clients’ accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by us is a percentage of the value of the assets in the client’s accounts. We pay Schwab the Participation Fee for so long as the referred client’s account remains in custody at Schwab. The Participation Fee is billed to us quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by us and not by the referred client. We do not charge clients referred through the Service fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred through the Service. We generally pay Schwab a Non-Schwab Custody Fee if custody of a referred client’s account is not maintained by, or assets in the account are transferred from, Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time

payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees we generally would pay in a single year. Thus, we will have an incentive to recommend that client accounts be held in custody at Schwab. The Participation and Non-Schwab Custody Fees will be based on assets in accounts of our clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, we will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit our fees directly from the accounts.

Schwab will not charge you separately for custody but will receive compensation from you in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. The commission structure for equity/exchange-traded fund ("ETF") trades will vary depending on your household total asset value held at Schwab. Generally, those with smaller household assets at Schwab will pay higher commissions to Schwab for equity/ETF trades. Electing the use of electronic confirmations gives smaller households the ability to pay lower commissions on equity/ETF trades. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealers' fees. Thus, we may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. We nevertheless acknowledge our duty to seek best execution of trades for you. Trades for your accounts held in custody at Schwab may be executed through a different broker-dealer than trades for MCM'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.

See Section XII, "Brokerage Practices," for a disclosure of our soft dollar arrangement. Schwab also makes available to us other products and services that benefit us but may not benefit your accounts. Some of these other products and services assist us in managing and administering your 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 our fees from our clients' accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of our accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional also makes available to us other services intended to help us manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for fees of a third-party providing these services to us. While as a fiduciary, we endeavor to act in your best interests, our recommendation that you maintain your assets in accounts at Schwab may be based in part on the benefit to us of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest. We acknowledge our fiduciary responsibility to treat you fairly. It is our practice to mail to you a list of the vendors who received compensation from soft dollar sources. Details of those services will be provided to you upon written request. These services may include information technology consulting, and regulatory compliance publications and presentations.

XV. Custody

MCM does not seek to maintain or exercise control of client assets. Client assets are generally held in custody by broker-dealers (such as Schwab), managing members or banks who are not affiliated with us. The custodian will send statements directly to you periodically with a list of the securities you own and the estimated market value. They will also send you confirmations of account activity such as buys and sells each time that activity takes place. You may elect to receive this information either in hard copy or by electronic means (email).

You should carefully review the statements you receive from the custodian. You should also carefully compare the custodian's statement with reports you receive from us. The custodian's statement may be different from ours if you own private investments, such as hedge funds or real estate. It should be noted that the custodial statement is the official record of your account(s) and assets (for various purposes including taxes). We may override the custodian's value if we feel information we have is a better indication of the market value. For example, a hedge fund manager may provide us with a value as of a reporting date that is different from the custodian's statement. We will use the value from the hedge fund manager because we feel it is more current. If you have questions about any statements you receive, your Investment Advisor will be happy to answer them.

As previously disclosed, we generally debit our advisory fees directly from your account(s). The SEC considers this to be custody. When we have determined your quarterly advisory fee, we will send a statement to you showing how the fees were calculated. We will then send a copy of that statement to the custodian who then debits your account for the amount shown on our statement. You should carefully review that statement as the custodian will not have sufficient information to verify if the fees are correct. If you have any questions on your fees, you should contact your investment advisor or the Chief Compliance Officer at the number shown on the cover of this Brochure.

If you invest in NCP, we may have access to your accounts since we serve as the Investment Advisor to NCP. Limited partners of NCP will not receive statements directly from the custodians of the underlying funds. Instead, NCP is subject to an annual audit and the audited financial statements are distributed to each limited partner. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 260 days of NCP's fiscal year end. For more information on NCP, please see Section VII, "Types of Clients" in this Brochure, in addition to the NCP's offering documents.

XVI. Investment Discretion

We manage most of our clients' investment accounts on a discretionary basis. During our meetings with you we will discuss your investment objectives. We will also discuss your risk tolerance, liquidity needs and time horizon to determine what asset classes we believe are suitable for you. Then, we will select an asset allocation strategy and choose specific investments to implement that strategy based on our understanding of your needs. You will decide how much money will be committed to your account(s). You will authorize us to purchase and sell mutual funds, stocks, bonds, structured notes and other assets consistent with your investment objectives. The specific types and quantities of the securities are generally not discussed with you prior to their being bought or sold. However, we exercise our discretion

based on the information we collect as we have just described. You may also impose reasonable restrictions on your account, and/or limit our discretionary authority.

We do not invest in private securities or with private managers on a discretionary basis. If we feel one of these is appropriate for you, we will send you the necessary information and forms. You may agree or disagree with our recommendation.

For the discretionary portion of your account(s), you will probably be asked to open an account with Schwab. In order to open the discretionary account, you must sign a document authorizing, among other things, consent to authorize us to place trades on your behalf. We have negotiated a predetermined commission schedule with Schwab for all institutional accounts under our supervision.

Historically, we have primarily used Schwab for execution of purchases and sales, clearing services and for computerized downloading of your account activity and information. In the future, we may use other custodians who provide similar services. Only if you use a custodian will you pay for the services they provide. We seek to have our clients pay lower fees than retail customers. You will select your custodian based on the services they provide, their cost relative to other custodians and possibly on our recommendation. Certain custodians may charge a somewhat higher transaction and other fees than a different custodian would for a similar service.

XVII. Voting Client Securities

Our policy is to vote your proxies in the interest of maximizing shareholder value. Therefore, we will vote in a way that we believe is consistent with our fiduciary duty to you. We will also consider how a proxy vote might cause the security to increase or decrease in value. We will consider both the short and long term implications of the proposal to be voted on when considering the optimal vote. You have the right to direct how we vote on your behalf.

We have currently identified no conflicts of interest between your interests and our own within our proxy voting process. Nevertheless, if we determine that a material conflict of interest exists in voting a client proxy, our procedures provide for a Proxy Voting Committee to convene and to determine the appropriate vote. Or, we may engage a competent third party, at our expense, to determine a vote that will maximize shareholder value. As an added protection, that third party's decision is binding. Our complete proxy voting policy and procedures are in writing and are available upon request. In addition, our proxy voting record is available to clients and may be requested by calling the telephone number listed on the Cover Page of this Brochure.

XVIII. Financial Information

We do not solicit pre-payment of fees more than six months in advance.

We have never filed for bankruptcy and are not aware of any financial condition that is expected to affect our ability to manage your accounts.