



MCLEAN ASSET MANAGEMENT CORPORATION

# FORM ADV Part 2A

## July 30, 2014

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This Brochure provides information about the qualifications and business practices of **McLean Asset Management Corporation** (“MAMC”). If you have any questions about the contents of this Brochure, please contact us at 703-827-0636 or [info@mcleanam.com](mailto:info@mcleanam.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

**McLean Asset Management Corporation** is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about **McLean Asset Management Corporation** also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for MAMC is 108067.

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## Item 2 – Material Changes

The following material changes have been made to this document since the last update on March 31, 2014:

Item 4. Advisory Business. Inclusion of new shareholder and Watermark Adviser Services offers a Portfolio Management Service.

Item 10. Other Financial Industry Activities and Affiliations, has been revised to remove any reference to Novo Cura, LLC, a wholly owned business of investment adviser representative, Mark Witaschek. All insurance related activities conducted by Novo Cura were terminated as of July, 2014.

Item 12. Brokerage Practices. In addition to TD Ameritrade, Inc., MAMC may direct brokerage and custodial services to Charles Schwab & Co., Inc; or Teachers Insurance and Annuity Association of America.

We will further provide you with a revised Brochure as necessary based on material changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting your personal investment advisor representative at 703-827-0636 or via email at [info@mcleanam.com](mailto:info@mcleanam.com). Our Brochure is also available on our website: [www.mcleanam.com](http://www.mcleanam.com).

Additional information about us is available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website provides information about any person affiliated with MAMC who is registered, or is required to be registered, as an investment adviser representative of MAMC.

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## Item 4 – Advisory Business

McLean Asset Management Corporation (“MAMC”) is a registered investment adviser which was founded in 1984. MAMC is an independent adviser firm which provides investment management services and consulting services to a broad range of clients, including individuals, pension and profit sharing plans, trusts, estates, charitable organizations, and business entities. The principal owners of MAMC are Dean Umemoto, Alex Murguia Karen Umemoto, and AF International Asset Management, LLC.

MAMC provides balanced global equity and global fixed income investment management services to its clients. At the beginning of a client relationship, MAMC consults with the client to obtain detailed financial information and other pertinent data to determine the appropriate investment guidelines, risk tolerance, and other factors that will assist in developing an effective investment management program tailored to the client’s specific needs. MAMC manages the client’s account(s) on an individualized basis, taking into consideration a client’s goals, investment objectives, client mandated restrictions, risk tolerance, net worth, net income, and other various suitability factors. Further restrictions and guidelines may be imposed by a client which will affect the composition and performance of portfolios. For these reasons, performance of portfolios within the same investment objective may differ and clients should not expect that the performance of their portfolios will be identical with other MAMC clients.

In addition, depending upon a client’s specific circumstances and needs, MAMC may provide clients additional services such as income planning, college planning, retirement planning, risk management counsel, establishment of and counsel on retirement plans, and review of assets outside direct management by MAMC.

In implementing MAMC’s recommendations, a client may choose to have MAMC provide one or more of the services described below for the management of the client’s portfolio of assets. In all cases, MAMC will manage the portfolio based on the information it has been provided regarding the client’s financial circumstances and investment objectives. Each client is advised that any change in the client’s financial situation or investment objectives must be immediately conveyed by the client to MAMC to ascertain whether the agreed upon services/recommendations continue to be suitable and prudent for the client. The scope of the services to be provided to a client is governed by a written agreement between MAMC and the client.

The services that MAMC provides include the following:

**Discretionary Investment Supervisory Services.** A client may identify specific assets to be managed by MAMC on a discretionary basis, granting MAMC the authority to act as the client’s agent to supervise, manage, and buy/sell assets on the client’s behalf consistent with the agreed upon investment strategy. In exercising its discretion, MAMC considers the client’s investment objectives, but does not consult with client before taking any action in implementing the investment strategy which MAMC and the client have previously agreed upon.

**Non-Discretionary Recommendations without Agent Authority.** A client may identify specific assets to be managed by MAMC on a non-discretionary basis (i.e. without granting MAMC agent authority). MAMC reviews assets on a regular basis and makes recommendations to the client with respect to such assets as MAMC deems appropriate in light of the client’s investment objectives. However, the client is solely responsible for determining whether to follow any recommendations made by MAMC, and for implementing any recommendations MAMC makes with respect to such assets.

**Non-Discretionary Recommendations with Agent Authority.** A client may identify specific assets to be managed by MAMC on a non-discretionary basis with MAMC acting as client’s agent only upon receiving client’s prior approval to exercise such authority. Under such circumstances, MAMC makes recommendations to the client with respect to such assets as MAMC deems appropriate in light of the

client's investment objectives. It is only after obtaining the client's approval will MAMC act as the client's agent to implement such recommendation.

### **Sub-Advisory and Turnkey Asset Management Services.**

**Sub-Advisory Services.** MAMC acts as a sub-adviser to clients of other independent registered investment advisers. As a sub-adviser, MAMC is hired by an independent investment adviser to provide individual account management (including reporting, trading and billing) to the independent adviser's clients. The independent investment adviser will work with its client to determine an appropriate allocation of assets for sub-advisory services and monitor the advisory services.

**Watermark Adviser Solutions.** Watermark Adviser Solutions™ ("Watermark") is a division of MAMC which provides two service programs for independent registered investment advisory firms. Under all programs, Watermark may provide independent advisers marketing support and education regarding MAMC's approach to investments.

**Turnkey Asset Management.** Under the turnkey asset management program, Watermark provides services to independent registered investment advisers. This flexible outsourced solution provides a full suite of back-office services to investment advisers, including, but not limited to reporting, trading, billing, and marketing support. Investment advisers are also provided with model portfolios that investment advisers may use to implement their clients' investment strategy. Services provided through this program may include the following, as applicable:

- Analyze client's existing portfolio;
- Provide model allocations;
- Recommend strategies for client's portfolio;
- Assist independent investment adviser in creating an investment portfolio statement applicable to the sub-advisory accounts to guide MAMC in implementing the approved investment strategy;
- Implement the investment strategy consistent with investment portfolio statement parameters pursuant to investment discretion delegated by the independent investment adviser;
- Monitor performance of the sub-advisory account;
- Provide quarterly performance reports; and
- Oversee billing of client accounts.

Under certain circumstances, if an independent registered investment adviser is utilizing Watermark's turnkey asset management services, MAMC may enter into a written agreement where MAMC will provide assistance to the independent adviser in the event of death or short term disability. Except for this arrangement, MAMC and the adviser will be independent and responsible for their respective investment advisory operations and regulatory compliance matters, each maintaining its own written disclosure statements.

**Portfolio Management Services.** Under the Portfolio Management Services program, Watermark partners with independent, unaffiliated registered investment advisers ("RIAs") to jointly provide services to RIAs' clients. Unlike the Turnkey Asset Management program where Watermark provides services exclusively to independent advisers, Watermark is retained by a RIA referred client to provide certain services. A client is also required to engage the referring RIA to provide services that are not provided by Watermark.

The services Watermark may provide to client, include the following:

- Analyze client's existing portfolio;
- Provide model allocations;
- Recommend strategies for client's portfolio;
- Work with RIA in creating an investment portfolio statement applicable to a client's accounts to guide MAMC in implementing the approved investment strategy;
- Provide administrative services regarding client accounts;

- Implement the investment strategy consistent with investment portfolio statement parameters pursuant to investment discretion granted by client;
- Monitor performance of the client accounts;
- Provide quarterly performance reports;
- Make available, on a reasonable basis, a MAMC investment adviser representative familiar with client accounts, to discuss account management with client; and
- Oversee billing of client accounts.

Watermark's services to clients under this program are contingent upon a client retaining the referring RIA to provide services, which include, but are not limited to: (i) serving as primary contact for communications about client's accounts managed by MAMC; (ii) meeting client at least annually to discuss client's investment objectives or changes in account management; (iii) sole responsibility for determining client's suitability of recommended investment strategies and allocations for client accounts; and (iv) on an ongoing basis, provide Watermark with relevant client information to enable Watermark to provide services to client.

In this program and under certain circumstances, where a client's assets are to be custodied at Charles Schwab & Co., Inc. ("Schwab"), RIA may be granted access to the its clients' account information through MAMC's brokerage and custodial arrangement with Schwab. MAMC and Schwab have entered into an agreement to enable MAMC to provide this service to RIAs.

**Employee Benefit Retirement Plans.** Investment management services are also provided to qualified employee benefit retirement plans.

MAMC may serve as the plan fiduciary and/or investment manager under ERISA §3(21), and may provide investment advisory services to some participating employers and participants of the plans. Under circumstances where MAMC acts in this dual capacity, MAMC receives a fee as investment adviser to the participating employer and a separate fee as a plan fiduciary. Each plan chooses its own third party administrator to provide administrative and record keeping services. MAMC may make a referral to outside administrators if requested by the client; however, MAMC has no financial interest in and receives no compensation for such referrals.

**Encore401(k)<sup>TM</sup>.** MAMC also offers the encore401(k)<sup>TM</sup> platform to provide advisory services to participant directed retirement plans using certain retirement plan service providers. For clients who choose to participate in the platform through encore401(k)<sup>TM</sup>, MAMC may serve as a fiduciary under ERISA §§3(38) and 3(21).

As an ERISA §3(21) fiduciary, MAMC acts in a non- discretionary capacity, making recommendations to the plan sponsor regarding the plan investments, assists in the development of an investment policy statement based upon the plan's goals and objectives; provide participant education; advise the plan regarding its fiduciary obligations; and assist with ongoing plan operations, as needed.

Where MAMC has been appointed an investment manager under ERISA §3(38), MAMC possesses discretionary authority to select, monitor and replace the investment options made available to the plan participants according to the goals and investment objectives of the plan. MAMC will also design and maintain asset allocation model portfolios comprised of single investment options available to the plan participants. Plan participants have the option to select an asset allocation model portfolio or construct their own customized portfolio of funds.

Through the encore401(k)<sup>TM</sup> platform, MAMC also offers to serve as a plan's investment manager under ERISA §3(38), providing the services described above, jointly with independent registered investment advisers who serve as the plan's ERISA §3(21) fiduciary. Clients opting for this service would be required to separately engage MAMC and the independent registered investment adviser to serve as plan fiduciaries and provide investment management services.

**Assets Under Management.**

As of December 31, 2013, MAMC had \$ 511,213,100 of assets under management on a discretionary basis, and \$25,876,500 managed on a non-discretionary basis.

**Item 5 – Fees and Compensation**

The specific manner in which fees are charged by MAMC is established in a written agreement between MAMC and the client. Clients whose accounts predate this document are subject to fee arrangements which may differ from the current fee arrangements, discussed below.

**Fees for Standard Investment Management Services.** Generally, the fee for standard investment management services is based upon the average daily balance of assets under management in the client's portfolio during the previous calendar quarter. These assets may consist of, but are not limited to, cash, equity securities, fixed income securities, mutual funds, exchange traded funds, money market funds, bank certificate of deposits, and US government savings bonds. MAMC's general fee schedule for the provision of standard investment management services is as follows:

<u>Value of Assets Under Management</u>	<u>Annual Fee</u>	<u>Quarterly Fee</u>
First \$1,000,000	1.25%	.3125%
From \$1,000,000.01 to \$2,500,000	1.00%	.2500%
From \$2,500,000.01 to \$5,000,000	.80%	.20%
From \$5,000,000.01 to \$10,000,000	.70%	.1750%
Greater than \$10,000,000	.50%	.1250%

The minimum quarterly fee for standard investment management services is generally \$3,125.00

**Fees for Tax-Managed Core Equity Strategies.** If consistent with the agreed upon investment plan, a portion of client's investment assets may be managed per MAMC's Tax-Managed Core Equity strategies in a separately managed account. MAMC charges a management fee ("Core Fee") which is in addition to the fees for standard investment advisory services, set forth above. Generally, the Core Fee is 0.40% per annum or 0.10% per quarter, based upon the average daily balance of the assets under management invested in one or more of the Tax Managed Core Equity strategies as during the previous calendar quarter, with a minimum quarterly fee of \$562.50. Generally, a minimum account balance for accounts managed per a Tax Managed Core Equity strategy is \$500,000.

**Fees for Sub-Advisory; Turnkey Asset Management Services; and Portfolio Management Services.**

For sub-advisory and Watermark's Turnkey Asset Management services offered by MAMC to independent registered investment advisors, including services offered under the Watermark program, MAMC's compensation is calculated on the entire balance of cash and securities held in the accounts managed by MAMC. Generally, the maximum annual fee will not exceed 0.35% of the assets under management, with a minimum fee of \$562.50.

For Portfolio Management Services offered by Watermark, compensation is calculated on the entire balance of cash and a security held in the accounts managed by MAMC, and the fee is generally 0.50% of the assets under management.

All of these fees may be negotiable based upon a number of factors such as the breadth and complexity of services provided to the independent registered investment adviser and/or the client, the total assets under management, and the total number of clients the independent adviser maintains under the programs.



Under certain circumstances, depending upon the total assets under management and other factors, in lieu of a fee based upon account balances, a fixed annual fee may be utilized. MAMC's fees are generally in addition to fees charged by the independent registered investment advisor; or referring RIA. Generally, a minimum aggregate of \$500,000 in combined client accounts is required for participation under any of these programs.

**Fees for Retirement Benefit Plans.** The fee for services rendered to qualified retirement benefit plans is charged as a percentage of assets within the plan and is based upon a number of factors such as the size of the plan, number of participants, and manner, method and location of employee education. Independent and non-affiliated third party administrators are selected by each plan client to provide administrative and/or record keeping services. The plan clients arrange with the plan custodian to deduct MAMC's fees from client accounts and remit them to MAMC. The fees and this payment method are set forth in the written agreement between MAMC and the client. MAMC may recommend service providers based upon the retirement plan client's needs; however, MAMC does not receive compensation or have a financial interest in making such recommendations. MAMC's fees will be a fee which will not exceed .3125% per calendar quarter, or 1.25% annualized, based upon the average daily balance of assets under management during the previous quarter.

**Fees for encore401(k)™ Advisory Services.** For retirement plans which participate in the encore401(k)™ platform, MAMC's fees will not exceed 0.20% per calendar quarter, or 0.80% annualized, generally based upon the assets under management as of the end of the last day of the previous quarter. However, with respect to some plans, MAMC does not control the timing of fee calculations by a plan's independent third party administrator which may calculate the fees based upon account balances up to ten (10) days before the end of a calendar quarter. The third party administrators to the plans are independent from and not affiliated with MAMC, and are selected by each plan client to provide administrative and/or record keeping services.

**Consulting Services and Fees.** On occasion, MAMC may provide its clients with a broad range of consulting services on an hourly basis. Such services may include analysis of an existing portfolio, tax planning, retirement planning, consideration of asset allocation adjustments, or advice regarding assets not subject to investment management by MAMC. The consulting fees generally range from \$150 - \$350 on an hourly basis or on a fixed fee basis, with a minimum of \$3,000, depending upon the scope and complexity of services provided.

**Third Party Fees.** MAMC's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be separately charged to a client. These charges are imposed by custodians, brokers, and other third parties, such as fees charged by managers, custodial fees, 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. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to MAMC's fee, and MAMC shall not receive any portion of these third party commissions, fees, and costs. MAMC does not accept any fees from the sale of securities, including the sale of mutual funds. Item 12 further describes the factors MAMC considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### **Manner of Payment and Calculation of MAMC Fees.**

**General.** MAMC management fees, except those related to services offered through the encore401(k)™ platform and Watermark Adviser Solutions™, are payable quarterly, in advance. In general, management fees are based on the average daily balance of an account's assets under management during the previous calendar quarter. If management services commence after the start of a calendar quarter, the initial fees are based upon the average daily balance from the day MAMC begins management of account assets through the last business day of the calendar quarter that an account was opened. In determining an Account's average daily balance, MAMC will value securities that are listed on a national securities



exchange or on NASDAQ at the last quoted sales price, on the valuation date, on the principal market where the securities are traded. For other securities or investments, its value shall be determined by MAMC, utilizing good faith, to reflect fair market value.

By written agreement with MAMC and/or the independent custodian of client's assets, the client may authorize the custodian, on a quarterly basis, to deduct from the client's account the fees due to MAMC and remit them directly to MAMC. Alternatively, a client who is not receiving services through the encore401(k)™ platform may choose to receive a quarterly invoice for payment of fees to MAMC. Irrespective as to the method of payment, clients may request a copy of their invoice. If fees are deducted from a client's account, client also receives a statement from the custodian reflecting all fees disbursed from client's accounts and paid to MAMC. Each client also receives a quarterly investment report from MAMC which reflects the disbursement of the fees. (See Item 13 for more information regarding client reports.)

Per the written agreement between MAMC and a client, either party may terminate an investment advisory agreement by delivery of a written notice to the other party in accordance with the time period set forth in the agreement. Upon termination, MAMC ceases management of assets and any discretionary authority granted by client to MAMC ceases, unless otherwise agreed upon by client and MAMC. Within 30 days after the effective date of termination or unapplied fees will be refunded, on a pro-rata basis, less any applicable fees which may be charged to MAMC for the liquidation of assets in a client's account.

Under certain circumstances, management fees may be negotiable depending upon family relations or individual circumstances. The principals, investment adviser representatives and employees of MAMC, and their family members (such as husband, wife, children and parents) are not charged management fees or are charged a reduced fee for MAMC management of personal accounts.

**encore401(k)™.** With respect to management fees for services through the encore401(k)™, clients are billed in arrears each calendar quarter.

**Watermark Adviser Solutions™.** With respect to services offered through Watermark Adviser Solutions, MAMC may be paid fees in advance or in arrears, as the independent registered investment advisers for such accounts may determine, based upon agreements with the clients.

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

MAMC does not charge any performance-based fees (i.e., fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

MAMC provides portfolio management services to a broad range of clients, including, individuals, high net worth individuals, pension and profit-sharing plans, trusts, estates, charitable institutions, foundations, endowments, and other business entities. Generally, MAMC requires a minimum account size of \$250,000.00.

A minimum account of \$500,000 is generally required for investment in a Tax Managed Core Equity strategy (a discussed in Item 8).

Through its division, Watermark Advisor Solutions™, MAMC provides turnkey asset management services to independent investment advisers. In addition, encore401(k)™ provides services to retirement plans. Generally, the minimum account size for these services is \$500,000.

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

MAMC measures an investor's goals, and time horizon through a client interview process to ascertain an investment strategy that is best suited to fit the client's needs. MAMC then designs an investment and risk management strategy to help the client achieve his or her financial goals.

In developing a client specific investment strategy, a number of factors are taken into consideration. MAMC views a client's assets as a single integrated portfolio and, generally, recommends that the portfolio be diversified across several asset classes. Tax efficiency is important, but is not the sole consideration in developing a strategy. Attention to investment expenses and numerous other factors related to individual investment selection are also considered.

Investment strategies may include long-term and short-term purchases depending upon the individual needs of the client. The concept of asset allocation, or spreading investments among a number of asset classes (domestic stocks vs. foreign stocks; large cap stocks vs. small cap stocks; corporate bonds vs. government securities), is a guiding principle when developing investment strategies. Asset allocation seeks to achieve the most efficient diversification of assets, to minimize risk while not sacrificing the effectiveness of the portfolio to yield the client's objectives. Since MAMC believes that risk reduction is a key element to long-term investment success, asset allocation principles are a key part of MAMC's overall approach in providing investment advice to clients.

MAMC's recommendations provide exposure to broad asset classes. The major asset classes MAMC commonly recommends are US Large Capitalization Stocks, US Small Capitalization Stocks, Foreign Stocks, Short and Intermediate Fixed Income Securities, Cash and Cash Equivalents. Excluding retirement plan investment options, we generally recommend no-load mutual funds or Exchange-Traded Funds (ETFs) that represent either an index or managed portfolio of individual securities diversified within the target asset class. We will also purchase a basket of stocks representative of an underlying index through our "Tax-Managed Core Equity Strategies" (discussed below). When recommending a specific fund, our criteria include: pure no-load, expense ratio, performance, style, tenure, market capitalization, turnover ratio, and inception. Recommendations for or purchases of investments will be based on publicly available reports and analysis. In the case of mutual funds, recommendations will be based on reports and analysis of performance and managers, and certain computerized and other models for asset allocation. MAMC also utilizes many sources of public information which include financial news and research materials.

MAMC routinely rebalances client accounts. Periodic rebalancing is a disciplined way, over time, to maintain the portfolio risk profile. Depending on the client's individual circumstances, or in periods where there is high volatility, more frequent account reviews and rebalancing may be necessary.

MAMC's analysis is based on a number of factors including those derived from commercially available software technology, securities rating services, general market and financial information, due diligence reviews, and specific investment analysis that clients may request. MAMC's main sources of information include commercially available investment services, financial newspapers, periodicals and issuer-prepared information. MAMC also receives research from consultants, including economists affiliated with Dimensional Fund Advisors ("DFA"). DFA provides historical market analysis, risk/return analysis, and continuing education to MAMC. MAMC's investment advice is based on long-term investment strategies incorporating the principles of Modern Portfolio Theory. MAMC's investment approach is firmly rooted in the belief that markets are efficient and that investors' returns are determined principally by asset allocation decisions, not by market timing or stock selection. MAMC focuses on developing globally diversified portfolios, principally through the use of passively managed mutual funds.

**Risk of Loss.** Investing in securities involves risk of loss that clients should be prepared to bear. MAMC in no way guarantees performance or results. All investments present the risk of loss of principal – the risk that the value of securities (mutual funds, ETFs and individual equity securities and bonds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities when sold is greater than the price paid, there is the risk that the appreciation will be less

than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

Although all investments involve risk, MAMC's investment recommendations seek to limit risk through broad global diversification and investment in high quality fixed income securities. MAMC's investment philosophy is designed for investors who desire a buy and hold strategy, with an investment time horizon of a minimum of five (5) years, and preferably longer. Frequent trading of securities increases transaction costs that MAMC's investment philosophy seeks to minimize for clients.

Certain funds utilized by MAMC may contain international equity and/or fixed income securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries.

**Tax-Managed Core Equity Strategy.** Where suitability standards are met and the client is in agreement, a portion of client's assets under management with MAMC may be managed per one of MAMC's Tax Managed Core Equity strategies. If selected, the investment strategy selected by the client and MAMC will be managed as a separately managed account which may include shares of US securities, exchange traded funds and American Depositary Receipts. The strategy seeks to manage the tax impact of a client's investments through a separately managed Global Equity account in order to meet the client's long-term goals of managing tax liability and controlling risk. Where a client has a concentrated stock position and depending upon a client's particular circumstances, such as the client's tax situation, liquidity needs and risk tolerance, MAMC may utilize a covered-call option strategy to generate a modest income stream while reducing significant exposure of the concentrated stock position.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the client's evaluation of MAMC or the integrity of MAMC's management. There have been no criminal or civil actions related to investments or an investment related business against MAMC or any of its personnel. On November 27, 2012, MAMC entered into a consent order and agreed to pay an administrative fine to the State of New Hampshire Bureau of Securities whereby MAMC agreed to register in New Hampshire a Virginia-based investment adviser representative who was providing investment advisory services to New Hampshire residents. It was also agreed that MAMC would pay past fees and a fine for not registering the adviser representative in New Hampshire prior to November 2012.

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

Dean Umemoto and Alex Murguia, executive officers and directors of MAMC, are also the managers of inStream Solutions, LLC ("inStream"), which purchased the assets of inStream Solutions, Inc., [formerly known as "WealthOne, Inc" and "inStream Solutions, Inc."]. inStream is a software company developing client relationship and service management software for use by investment advisers and other financial services professionals. Alex Murguia also serves as inStream's Chief Executive Officer, which accounts for approximately ninety percent (90%) of his time. MAMC and its investment adviser representatives are currently users of the inStream software. The software is also offered at a discount to independent registered investment advisers who participate in Watermark's turnkey asset management program (discussed in Section 2). MAMC's principals and select MAMC clients and employees are also owners of inStream. MAMC principals, as inStream managers, are eligible to receive additional equity interests in inStream.

MAMC's relationship with inStream does not create a conflict of interest as inStream's product is designed for use by investment advisers and other financial service providers to enhance the delivery of service to their clients, and is not a product designed for use or purchase by MAMC's current or prospective clients.

## Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading

MAMC has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at MAMC must acknowledge the terms of the Code of Ethics annually, or as amended.

MAMC's Code of Ethics requires, among other things, that all employees and supervised persons:

- Act with integrity, competence, diligence, respect, and in an ethical manner 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 one's own personal interests;
- Adhere to the fundamental standard that one should not take inappropriate advantage of his/her position;
- Strive to avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with the Code of Ethics;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Prohibiting the use of material non-public information and protecting the confidentiality of client information
- Ensuring compliance with federal, state and MAMC's regulations surrounding the proper use of insider information.
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one's professional competence and strive to maintain and improve the competence of other investment professionals; and,
- Comply with applicable provisions of the federal securities laws.

A copy of the MAMC's Code of Ethics is available to any client or prospective client upon request.

As discussed in Item 10 above, the principals of MAMC also are equity owners and managers of inStream. Prior to creation of inStream (discussed in Item 10) select MAMC clients became investors in WealthOne, Inc., and consequently, equity holders in inStream. Those offerings are very limited in time and scope and confined to very few MAMC clients who are also "accredited investors", as defined by the SEC regulations. MAMC did not provide advice to such investors with respect to such investment and, upon investment; certifications of compliance in accordance with provisions of Section 206 of the Investment Advisers Act (applicable to principal transactions for any related purchases of WealthOne, Inc. interests by MAMC clients) were received by those investors.

## Item 12 – Brokerage Practices

**Research and Other Soft Dollar Benefits.** With respect to client portfolios managed on a discretionary basis, MAMC will have the client's written authority to determine which securities are to be bought and sold on a client's behalf, the amount of the securities to be bought and sold, the timing of such transactions, and (absent specific client direction) the broker to be used for executing the transaction(s). MAMC's discretion is based upon a "limited trading authorization agreement" that the client approves when the client's account is opened, or when MAMC is added as adviser to an existing account. All existing and new accounts are registered in the name of the client, not MAMC.

Advisor participates in the institutional advisor program (“TDA Program”) offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA, an unaffiliated SEC-registered broker-dealer and FINRA member (“TDA”). TDA offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. MAMC receives some benefits from TDA through its participation in the TDA Program. (Please see further disclosures below for details.)

As disclosed above, MAMC participates in the TDA Program and will generally recommend TDA to clients for custody and brokerage services. TDA manages the majority of all fund transactions and serves as the primary custodian for securities and cash held in client accounts over which MAMC possesses discretionary authority. There is no direct link between MAMC’s participation in the program and the investment advice it provides clients, although MAMC receives economic benefits through its participation in the TDA Program that are typically unavailable to TD Ameritrade’s retail investors. However, MAMC regularly reviews the TDA Program to ensure that its recommendation is consistent with its fiduciary duty. Benefits MAMC may receive from TDA include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research-related products and tools; consulting services; access to a trading desk; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; discounts on compliance, marketing, research, technology, and practice management products or services provided to MAMC by third party vendors.

TDA may pay for business consulting and professional services received by MAMC’s related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for MAMC’s personnel to attend conferences or meetings relating to the TDA Program or to TDA’s advisor custody and brokerage services. Some of the products and services made available through the TDA Program may benefit MAMC, but may not benefit its client accounts. These products or services may assist MAMC in managing and administering client accounts, including accounts not maintained at TDA. Other services made available by TDA are intended to help MAMC manage and further develop its business enterprise. These benefits received by MAMC or its personnel through participation in the TDA Program do not depend on the amount of brokerage transactions directed to TDA, and do not influence the investment advice it gives to its clients. As part of its fiduciary duties to clients, MAMC endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by MAMC or its related persons in and of itself creates a potential conflict of interest and may indirectly influence MAMC’s recommendation of TDA for custody and brokerage services. In addition, soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.

MAMC also receives from TDA certain additional economic benefits (“Additional Services”) that may or may not be offered to any other independent investment advisors participating in the TDA Program. Specifically, the Additional Services include paying for a portion of expenses associated with a portfolio analysis and optimization system offered by Tamarac, Inc. Also, through its relationship with TDA, MAMC is provided discounts on products, such as the customer relationship management software offered by Salesforce.com, Inc.

TDA provides the Additional Services to MAMC in its sole discretion and at its own expense, and MAMC does not pay any fees to TDA for the Additional Services. MAMC and TDA have entered into a separate agreement to govern the terms of the provision of the Additional Services.

MAMC’s receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to MAMC, TDA most likely considers the amount and profitability to TDA of the assets in, and the trades placed for, MAMC’s client accounts, maintained with TDA. TDA, in its sole discretion, has the right to terminate its agreement with MAMC to provide Additional Services, if certain conditions are met.



Consequently, in order to continue to obtain the Additional Services from TDA, MAMC may have an incentive to recommend to its clients that the assets under management by MAMC be held in custody with TDA and to place transactions for client accounts with TDA. MAMC's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including seeking best execution of trades for client accounts.

MAMC generally recommends portfolios consisting of passively managed mutual funds offered by Dimensional Fund Advisors ("DFA"). DFA provides MAMC software and may provide assistance with client presentations and seminars. Additionally, CEG Worldwide, an advisor coaching program, provides MAMC with discounted rates due to MAMC's relationship with DFA. DFA also maintains a web based referral service which provides client referrals to registered investment advisers including MAMC.

#### **TD Ameritrade Referral Service.**

MAMC may receive client referrals from TDA through its participation in TD Ameritrade AdvisorDirect ("AdvisorDirect"). In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, MAMC may have been selected to participate in AdvisorDirect based on the amount and profitability to TDA of the assets in, and trades placed for, client accounts maintained with TDA. TDA is a discount broker-dealer independent of and unaffiliated with MAMC and there is no employee or agency relationship between them. TDA has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TDA does not supervise MAMC and has no responsibility for MAMC's management of client portfolios or MAMC's other advice or services. MAMC pays TDA an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to MAMC ("Solicitation Fee"). MAMC will also pay TDA the Solicitation Fee on any advisory fees received by MAMC from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired MAMC on the recommendation of such referred client. MAMC will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TDA to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

MAMC's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TDA and whose client accounts are profitable to TDA. Consequently, in order to obtain client referrals from TDA, MAMC may have an incentive to recommend to clients that the assets under management by MAMC be held in custody with TDA and to place transactions for client accounts with TDA. In addition, MAMC has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TDA or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. MAMC's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

#### **TDA President's Council**

A MAMC principal serves on the TD Ameritrade Institutional President's Council ("Council"). The Council consists of independent investment advisors that advise TDA on issues relevant to the independent advisor community. The Council meets in person on average 1-2 times per year and conducts periodic conference calls on an as needed basis. At times, Council members are provided confidential information about TDA initiatives. Council members are required to sign confidentiality agreements. TDA does not compensate Council members. However, TDA pays or reimburses Council members for travel, lodging and meal expenses incurred in attending Council meetings. The benefits received by MAMC or its personnel by serving on the Council do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by MAMC or its related persons in and of itself creates a potential conflict of interest and may indirectly influence MAMC's recommendation of TDA for custody and brokerage services.



**Directed Brokerage.** As discussed above, MAMC typically directs all brokerage and custodial services to TD Ameritrade, Inc. (“TDA”), a member of FINRA/SIPC. However, for certain accounts under Watermark service programs, discussed in Item 4, TDA or Charles Schwab & Co., Inc. (“Schwab”) may serve as custodian or broker. For future client accounts, and existing client accounts which are custodied at TIAA-CREF, brokerage and custodial services may be acquired from Teachers Insurance and Annuity Association of America (“TIAA”).

MAMC considers a number of factors in selecting brokers and custodians at which to locate (or recommend location of) its client accounts, including, but not limited to, execution capability, experience and financial stability, reputation, and the quality of services provided. For example, in selecting TDA as the broker and custodian for certain of its current and future client accounts, MAMC takes into consideration its arrangement with TDA as to obtaining price discounts for TDA’s automatic portfolio rebalancing service for advisors known as “iRebal”. The standard iRebal annual license fee applicable to MAMC is \$26,000 per year. That fee is subject to specified reductions (and even complete waiver) if specified amounts of client taxable assets are either already on the TDA platform or are committed to be placed on it. Specified taxable client assets either maintained on or committed to the TDA platform will bring fee reductions of up to \$26,000 per year for each of as many as three years or more.

The non-taxable assets excluded from the maintenance and commitment levels described above are those that constitute “plan assets” of plans subject to Title 1 of the Employee Retirement Income Security Act of 1974, amended, or of plans as defined in Section 4975 of the Internal Revenue Code (which include IRAs). If MAMC does not maintain the relevant level of taxable assets on the TDA platform, MAMC may be required to make a payment to TDA calculated on the basis of the shortfall.

MAMC believes that the products and services offered by TDA, Schwab, and TIAA are competitive in the market place for similar services offered by other broker-dealers or custodians. Furthermore, MAMC is of the opinion that the arrangement with TDA as to the iRebal service does not affect MAMC’s independent judgment in recommending or maintaining TDA as the broker or custodian for client accounts.

Irrespective of the benefits received from TDA, Schwab or TIAA, MAMC seeks to effect transactions on the basis of best execution. “Best execution” does not simply mean effecting transactions at the lowest possible commission rate, transaction cost and price, but includes a number of factors mentioned herein. MAMC seeks to effect transactions at a price, commission and transaction cost (e.g., mark-up or mark-down) that provides the most favorable total cost or proceeds reasonably attainable under the circumstances. MAMC considers various factors in its determination to utilize TDA or Schwab, which include, but are not limited to, the nature of the portfolio transaction, the size of the transaction, broker’s trading expertise, reliability, responsiveness, reputation, execution, clearance, settlement and error correction capabilities, access to a particular trading market, security conditions (e.g., liquidity, volatility), and the value of research it provides.

On an annual basis, MAMC accesses and reviews best execution statistics made available by TDA and Schwab, as part of its best execution review. While there is no one standard of what determines best execution, speed of transaction, execution price, price improvement opportunities and liquidity are typically the factors that MAMC considers most important.

To the best of our knowledge, TDA, Schwab and TIAA seeks the best execution that is reasonably available under current market conditions for client orders. In addition, TDA, Schwab and TIAA must regularly and rigorously evaluate the orders they receive to determine which markets, market makers, or Electronic Communication Networks offer the most favorable terms of execution.

With respect to employee benefit retirement plan clients participating on the encore401k platform, or where MAMC provides pension consulting services, MAMC does not arrange for execution of mutual fund and securities transactions. Transactions under such plans are executed directly through employee plan participants.

As part of its turnkey asset management program, MAMC arranges for the execution of transactions in accounts maintained by clients of independent investment advisors in the same manner as for MAMC client accounts, as described above.

**Trade Corrections.** Where a trading error in a client account is caused by MAMC, MAMC will be responsible for and reimburse client for losses resulting from the trade correction. In instances where multiple trades are corrected at the same time for the same client, MAMC will net the results of each correction against each other. Gains received during these corrections may be used to offset losses resulting from other corrections within the total trade error correction. MAMC may also correct trade errors by reallocating a purchased security to another client(s) account(s) in situations in which MAMC determines such allocation will be in the clients' best interest. Per policy of TDA, if a correction of an error caused by MAMC results in a net gain (net gains are defined as positive error account balances resulting from trade corrections), the gain will be automatically moved to a designated TDA error account, and subsequently donated to charity.

**Aggregation of the Purchase or Sale of Securities.** For its Tax Managed Core strategy, MAMC will aggregate trades of securities when advantageous. Mutual fund transactions are executed at the end of each trading day, receiving the net asset value ("NAV") representing the fund's per share market value. Transaction costs are not saved by aggregating orders in almost all circumstances in which MAMC arranges transaction.

### **Item 13 – Review of Accounts**

Account assets are supervised continuously and formally by investment adviser representatives of MAMC. The review process includes assessment of client's objective; evaluation of the investment strategies in use; assessment of the need to rebalance the portfolio; and monitoring the portfolio. Additional reviews may be warranted due to a change in client's financial situation or investment objectives that MAMC is made aware of, or market/economic conditions.

With respect to employee benefit plans, plan assets are reviewed on an as needed basis and when deemed appropriate.

MAMC clients and clients of independent registered advisers who receive sub-advisory services or services through Watermark are provided with written investment performance reports on a quarterly basis. The reports include portfolio performance review, transactional history, current positions and market value, interest, dividends, and management fees deducted from the account(s).

Additionally, the account custodian provides account statements to clients on a monthly basis. Clients are encouraged to compare the reports issued by MAMC with the statements provided by account custodian(s).

An employee benefit retirement plan client receives performance reports from its record keeper or other third party service provider.

### **Item 14 – Client Referrals and Other Compensation**

MAMC through its encore401k™ program may compensate a person, such as certified public accounting firms, for referrals of clients. As part of such a referral program, MAMC complies with Rule 206(4)-3 of the Investment Advisers Act of 1940.

As discussed under Item 12, MAMC participates in TDA's institutional program where MAMC receives from TDA certain economic benefits that may or may not be offered to any other independent investment advisors participating in TDA's advisor program. See Item 12 for further details.

Persons who become clients through any referral program are not charged higher fees than those who are not referred through such a program.

### **Item 15 – Custody**

MAMC does not have custody of any client funds or securities. All clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. MAMC advises each client to carefully review such statements and compare such official custodial records to the account reports provided by MAMC. MAMC statements may vary from custodial statements based on accounting procedures, accrued income, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

With respect to accounts that MAMC manages on a discretionary basis, the client grants MAMC a "limited power of attorney" at the outset of an advisory relationship, authorizing MAMC to select the identity and amount of securities to be bought or sold on the client's behalf. In all cases, however, such discretion is to be exercised in a manner consistent with the agreed upon investment objectives for the particular client account.

When selecting securities and determining amounts, MAMC observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to MAMC in writing.

### **Item 17 – Voting Client Securities**

**General.** Except for client assets held in MAMC's Tax-Managed Core Equity strategies (discussed in Item 8, above), as a matter of firm policy and practice, MAMC does not have authority to and does not vote proxies on behalf of its clients. Clients are instructed to inform their custodian that MAMC should not be designated as the party to receive information on voting client proxies. The obligation to vote client proxies shall remain with the client. Clients shall in no way be precluded from contacting MAMC for advice or information about a particular proxy vote. However, MAMC shall not be deemed to have proxy-voting authority solely as a result of providing such advice to clients.

Should MAMC inadvertently receive proxy information for a security held in a client's account, MAMC will immediately forward such information on to the client, but will not take any further action with respect to the voting of such proxy. Upon termination of the advisory relationship, MAMC shall make a good faith and reasonable attempt to forward proxy information inadvertently received by MAMC on behalf of clients to the forwarding address provided by clients to MAMC. Clients are solely responsible for taking any action in legal proceedings regarding securities owned or previously owned by clients. MAMC does not advise or review any documentation related to such legal actions, including, but not limited to, proofs of claim in class action suits.

**Proxy Voting – Tax-Managed Core Equity Strategies.** MAMC shall exercise proxy voting authority only over securities separately held and managed in a client account per one or more of MAMC's Tax-Managed Core Equity strategies.

Aligned with our investment philosophy and in keeping with our fiduciary obligations to our clients, this policy is based on MAMC's passive investment management approach.

As a registered investment adviser, MAMC has a fiduciary duty to act solely in the best interest of its clients. As part of this duty, MAMC recognizes that it must exercise voting rights in the best interest of clients.

It is the general policy of MAMC to support management of the companies in which it invests and will cast votes in accordance with management's proposals. However, MAMC reserves the right to depart from this policy in order to avoid voting decisions that are believed may be contrary to our clients' best interests.

Clients may obtain a copy of MAMC's complete voting policies and procedures and information about how the Firm voted a client's proxies by contacting MAMC by telephone at (703) 827-0636 or by e-mail at [info@mcleanam.com](mailto:info@mcleanam.com).

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about MAMC's financial condition. MAMC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.